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MASTER THESIS

**Overview of Foreign Aid in the Balkan Countries:
Selected problems**

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Declaration of Authorship

The author hereby declares that she compiled this thesis independently, using only the listed resources and literature.

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Abstract

This study attempts to ascertain the role of the World Bank and its problematical issues in Balkan countries. The foreign aid holds a key impact in these economies, but on the other hand it embraces a controversial aspect. The contradictory role of the World Bank lies in aid ineffectiveness at reducing poverty and sustaining economic growth. The foreign aid inflows did not manage to fulfill its objectives efficiently, since they created income inequalities in the region favoring distinctive economies. Corruption and bad-governmental management would expand the controversially further. Additionally, the study analyzes the impact of aid on economic growth empirically using a panel data set comprising of five Balkan economies during 2000-2010 period. We find negative and significant evidence of aid impact on growth. Moreover, the relation between governance and growth resulted positive. Results display a clear framework of aid ineffectively across the region. The Balkan countries should therefore focus on a better effective management of the World Bank aid to reduce poverty, income inequality and to achieve the economic growth.

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Abbreviations and Acronyms

CDR	Comprehensive Development Framework
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
MDG	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Paper
SEE	South-East Europe
TF	Trust Funds
UNCAC	United Nations Convention against Corruption
WB	World Bank
WDR	World Development Report

Chapter 1

Introduction

The economic development of the Balkan economies is broadly determined through the World Bank policies. The foreign aid inflows intend to support the economic growth by investing in strategic sectors. In some cases like Albania's economy the implementation of the WB policies could be affected by irregularities whenever the government will shift its attention to political issues instead of growth. Another risk is the foreign aid inflows addiction for the Balkan countries from the World Bank investments. There are special Balkan countries like Serbia for example which are being financed at a higher share level. From a social perspective this could create social contrast between the countries in region. Another example is included at Shleifer, A. (2009) where the foreign aid was defined as a hurt for the economic development because of the controversy side in fulfilling the economic growth acceleration objective. Therefore the efficiency of foreign aid is debatable and I would like to ascertain the role of the foreign aid in the Balkan region; with the controversy aspect as the main issue.

The World Bank role is controversial based on the Stiglitz publications which display contradictory views on the real outcomes of foreign aid. Stiglitz's report strictly provoked a political controversy as well evoking corruption in developing countries that would slow down the WB efficiency. A major concern for the Balkan economies remains as (Wolfensohn 1996) names the "cancer of corruption" because corrupted governments tend to get more aid. Obviously this is unfavorable for the economic development in assimilating the World Bank aid for the region. As the example of the Sub-African governance and aid study of Bräutigam D. (2004) the controversy of the World Bank activity in the developing countries stands in the fact of receiving flows which do not help in generating revenues for the community. Regarding the Balkan countries case the aid may influence negatively the incentive reduction and in governmental reforms creating a moral hazard.

Additionally, the World Bank controversy aspect lies in the economic inequality, as the adjustment lending activity increases fragmentation between Balkan countries on the technical assistance basis and represents no differences in regional balance policy.

This study is divided in five parts. It begins with the born and evolution of the World Bank in the second chapter. At the third chapter we attempt to investigate the role of the World Bank as a major financial investment support for achieving growth improvements, institutional development and economic growth. Motivations and determinants of aid are also present while ODA aid is particularly helpful to identify the country specifics during the aid succession. An analysis of the World Bank controversy is viewed in the fourth chapter. Stiglitz critics are of primary focus. Structural adjustment lending effects essentially show that the financing in the Balkan involve controversial effects. Corruption, poor local governance and political and economical factors have affected into aid failures.

The further chapter contains the empirical analysis and econometric findings which sustain this controversial role, investigating the impact of the foreign aid on growth.

Chapter 2

The World Bank

2.1 History and organization

The World Bank is one of the most powerful global financial institutions to offer leveraged loans. Despite its numerous aims and missions, the chief target of the World Bank is poverty reduction. Embraced by two main institutions like the International Development Association and the International Bank for Reconstruction and Development, the World Bank is today an internationally vital funding institution.

The World Bank was initially an inception of Bretton Woods Conference (The United Nations Monetary and Financial Conference) in July 1944, New Hampshire. It was the first from five institutions shaped, as a need of regulation of the international monetary and financial order subsequent to World War II. The conference gathered 730 delegates from each 44 joined countries, where the most potent and dominated countries subject to discussion were the United States and United Kingdom, represented respectfully by Harry Dexter White and John Maynard Keynes. Although initiated together, and both based in Washington, D.C., the World Bank and the International Monetary Fund differ from each other in the leading process. The World Bank has an American leader, whereas the International Monetary Fund is led by a European.¹

From 1945 to its notion until 1967, the World Bank was following a low level of lending, due to the fact that the loan transmission was regular and ordinary. Considering the specifics, the bank made its efforts to design a steadiness level of equilibrium to renovate the loans on the purpose of achieving the trust in the Bank's activity. France was chosen from the Bank president to be the first beneficiary country of the World Bank aid, while Chile and Poland's requests were rejected.

¹ Sampson, Gary P., *The Role of the World Bank in the Global Governance*, The United Nations University, 2001, p. 112

The first amount of the loan was USD 250 million and it enclosed rigorous restraints. As argued at Mason, E. (1973), after a range of observations from the World Bank regarding the fund utilization, the French government offered a very stable budget on debt repayment, although it was pointed out the need to eliminate the communism components inside the Cabinet.²

Later on, the Marshall Plan in 1947 changed the flow of the World Bank aid. Many other European countries obtained financial support, and shortly after, the interest emerged in non-European countries until 1968, in which the loans were intended to those projects that could help the borrower country to repay the loans mainly at infrastructure and ports construction. It was again Mason, E. (1973) criticism on the early World Bank role as ineffective to fulfill the mission, by letting the Marshall Plan becoming the only financial engine of Western Europe lending more than USD 41 billion by 1953.

From 1968 to 1980 the chief operation of the World Bank was to accomplish the fundamental needs of the developing countries. Moreover, the number of loans to borrowers was amplified, especially in infrastructure or social services sector. The former changes were due to the selected American business executive Robert McNamara allotted by the presidency, whose intentions were in generating an innovative system that would connect the borrower country with the Bank, to facilitate the loan process. He immediately modified the Bank's policies into vital trials such as the investment in the health system, agriculture enhancement; building schools etc.³ With the purpose of financing additional loans, the new president in assistance with the Bank treasurer Eugene Rotberg, managed to enhance the capital available to the Bank only by searching new external sources of capital such as those banks which have been major sources of bank funding. Unfortunately, the effect of the period of the alleviation of the poverty took a debt rise of developing countries with the annual rate of 20% from 1976 to 1980. According to Goldman, M. (2005) on its very first decades the World Bank was explicitly predestined to decline, confined also by the political pressure of the United States. The new decade brought innovative news for the World Bank. In 1980 the new president Alden W. Clausen was selected by the United States

² Mason, Edward Sagendorph and Robert E. Asher, 1973, "*The World Bank since Bretton Woods: The Origins, Policies, Operations, and Impact of the International Bank for Reconstruction and Development and the other members of the World Bank Group*".

³ Sampson, Gary P., "*The Role of the World Bank in the Global Governance*", The United Nations University, 2001, p.113, 119

President, Jimmy Carter. Soon after, he followed a series of pioneering strategies starting from the substitution of the previous Bank team force, offering a new image of the Bank, and up to the substitution of the Chief Economist Hollis B. Chenery in 1982 by Anne Krueger, who was very famous for her disapprovals on development funding.

From 1980-1989 the loaning process was designated to the developing countries. In addition, as a part of the World Bank policy, the new structural regulation policies aspired to reform the third world economies. Thus, the new regulation established a reduction of “health, nutritional and educational levels for tens of millions of children in Asia, Latin America, and Africa”⁴

After an extensive phase of criticisms, the World Bank shaped its activity as a reaction to several non-governmental organizations and environmental groups, which were already integrated on the lending processes of the Bank.

2.2 Missions and activity

The World Bank missions are firmly conducted from the Millennium Development Goals (MDGs), a set of eight international goals where each United Nations country member has acceded to accomplish. The main mission of the Bank relies on the universal poverty reduction, which at the meantime is the world’s most imperative increasing concern.

Some of the chief issues in the center of attention are devoted to the completeness of lending activity, such as supporting the middle-income countries at certain interest rates that will replicate low gains than its own borrowings from capital markets. Furthermore, no interest loans and donations to the low income nations with minor or no admission to global credit markets are supplied by the International Development Association.⁵

Controversially, the International Bank for Reconstruction and Development is a market-based nonprofit organization loaning money for various development sectors and using the high credit rating with the aim of low interest rate on its loans. Alternatively, the IDA was financed by periodic donations selected to the institution by its most wealthy member nations.

⁴ UNICEF Annual Report (United Nations Children's Fund), Oxford Clarendon Press, 2000.

⁵ Ibidem, p. 132

The World Bank primary missions consist on giving support to the developing countries and assist on poverty reduction, sustain the economic growth upward to a promising investment background, build up jobs, all in the course of a relentless financial supply.

Considered to be its major five features for the economic development, the World Bank comprise the governmental amplification and their certified executive's education, achievement of legal systems for the businesses, protection of private assets rights, founding of powerful supporting systems from micro credit to bigger business enterprises, helping countries to fight corruption, and finally, offers researches and programs on consulting services, training procedures which will be especially useful to non-government organizations, academies and even governments itself. The entire above mentioned goals are determinant for an expanded economical development (Goldman, M., (2005)).

The Bank's funding is acquired first and foremost from the AAA-rated bonds sold throughout the IBRD in international markets. It is this institution itself that creates earnings from its contribution actions, whereas IDA earnings are collected throughout the donor nations which refill the Bank's finances each three years and from loan refunding.

In order to fulfill the missions of the MDG objectives by the year 2015, it is required to firstly complete six standards as follows: an intense growth for the developing countries, African countries and especially the tenuous ones, development of other sectors like education and health, incorporation of environment and growth programs, higher and healthier aid, advanced trade conventions, and finally a more powerful alerted support from other international institutions such as the World Bank is.⁶

From year 1990 to 2004 there was a decline in the percentage of people living in extreme poverty. The prime impact of the Bank is extreme poverty and hunger. Thus, the World Bank utilizes its responsiveness to develop the life standards for millions of poor people and low income countries by increasing the level of its funding to USD 106 billion in 2009-2010 periods. According to statistics, the frequency of children school attendance in developing countries increased from 80% in 1991 to 88% in 2005. In addition, 57% of 72 million children of primary school age were not being educated, most of them females. (Gilbert, C. and D. Vines, (2000)). Seeing it as a problem for several countries, the World Bank also contributes in promoting the gender equality, by stimulating female's force in the labor market, as long as 60% of them are

⁶ Van den Boosche, P. ,*The Law and Policy of the World Bank*, Cambridge 2005, p.158

unpaid family employees. Another significant scope is child mortality declining. According to statistics, an evaluation of 10 million children died in 2005 under the age of five, where the majority of deaths came from unavoidable reasons.

Still, the radical circumstances made it very hard to face the harsh problems in the region; given that more than half million women died during pregnancy or childbirth. Such causes called for deep health care involvement from the World Bank and its activities which also made it broadly available.⁷

Another struggle of the World Bank regards the fight against AIDS, Malaria and other contagious diseases particularly in Africa, where the mortality due to HIV/AIDS have reached 1.6 million in 2007. Mortality as a result of malaria causes 300 to 500 million deaths each year, where almost 95 percent of deaths take place in Sub-Saharan Africa.⁸

Other important activities of the World Bank comprise the biological protection and deforestation mainly in unfavorable regions; standards for air pollution and emission of the gas that reach the critical standards. The Bank also cooperates with various international associates and local ones in order to rapidly fulfill the MDGs targets.

The United States is eventually the prevalent shareholder of the Bank, and the Board represents the member nations and is formed by the Executive Directors who meet twice a week to supervise the administrative issues, innovative policies, loaning decisions and mission strategies for specific countries. The Board of Directors is formed from 25 Executive Directors including the President while the Bank itself comprises 24 Vice Presidents, three Senior Vice Presidents and , two Executive Vice Presidents.

2.3 The evolution of the World Bank

In order to have a good occurrence of its competences, the World Bank evaluates all its policies with the purpose of supporting the poor by stressing out the financial options that would be complementary to the improvement concerns. The strategies of the World Bank are established on three pillars: resources; reforms; efforts and the results. Reforms usually tend to develop the

⁷ Ibidem, p. 240

⁸ The World Bank Treasury, *World Bank Bonds & Investment Products*, 2007

general activity of the projects and strategies from their conception till the information distribution, whether it is being reachable, and finally the governmental accomplishment. It also organizes various campaigns to undertake the certainty that the financial activities are strictly affirmed into the country members, such as capital improvements.

Stiglitz J. (2001) argued that 'a range of policies and institutional changes are needed in order to enhance participation. This includes better education, investments in communication infrastructure, rule of law and full employment policy'.⁹

Its main products consist of two main groups: lending products and Analytic and Advisory Activities (AAA). The first one contains programmatic loans, adjustment loans and investment credits; whereas the second includes donor coordination, non-lending technical assistance and fee-based advisory services. On the other hand, the World Bank Group integrates five narrowly connected entities that work jointly toward poverty reduction: the World Bank (IBRD and IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

Each of the biggest shareholder countries like the United States, United Kingdom, Japan, Germany, and France assign an executive director.

To facilitate all the operation procedures, in 1993 the World Bank assembled a board that would adhere the international strategies and guidelines. After surveys and examination supported from the Bank, the board covers the advantage for giving the opportunity to express the people's opinions regarding the projects and missions.

The World Bank is a colossal institution which incorporates approximately 10.000 development professionals from roughly each country in the world. Only in Washington, D.C., it contains more than 100 nation offices, together with economists, financial advisers, analysts, etc.¹⁰ whether, in developing countries are around 3000 employees working in national offices. Fundamentally required to build a connection between poor and rich nations, their devotion is essential on generating the World Bank guiding principles. At Winters, J.A. and Pincus, J.R. (2002) it is analyzed the need of reforming the Bank's policies, and the necessity to improve its strategies so that their implementation could not create negative implications especially in developing countries. New policy changes were needed, as the Bank was facing difficulties and

⁹ Stiglitz J. (2001), *"The Rebel Within: Joseph Stiglitz and the World Bank"*.

¹⁰ The World Bank Treasury, *World Bank Bonds & Investment Products*, 2007

controversies in several nations. As analyzed at Bhargava, V., (2006), at the attempt of offering debt relief, they couldn't soothe critics of alleviating poverty.

In order to sustain the proper poverty reduction, the World Bank strives to daily innovate its support towards the low-interest and no-interest credits and donations from its own institutions (IBRD and IDA), especially in the low-income nations. The bigger the finances, the more loaning will be obtainable for re-investing to complete the Bank's priorities. Therefore, the World Bank is very cautious at keeping a financial discipline in order to keep the AAA-rated bonds and continuing its activity. Instead, contributes and the financial sustain of all the shareholders is essentially needed, so as to display straightly the capital they obtain.

To fulfill the IBRD obligations it is compulsory to appraise that in extra ordinary case, the Bank possesses the 178 billion dollars in what is known as the callable capital, even though the call on such store was never required before. On the other hand, IDA remains the biggest source of funding which grants interest free loans to the developing countries, restocking 40 donor countries every three years.

At the end of the fiscal year, the World Bank is automatically in a surplus, a part of which is targeted to the IDA missions and strategies to be accomplished. Whereas the rest serves as a debt in needs of poor countries or in case of prerequisite conditions.

The evolution of the World Bank over the past forty years implemented a positive impact especially in developing countries (raised by 20 percent) and heartened its activity in successful projects. The World Bank activity is highly concentrated in the growth promotion and development of the developing countries mainly by helping new work places, revenue boosting and providing all the financial assistance.

In spite of a variety of campaigns and promotions, nowadays the role of the World Bank is being misinterpreted because of the criticisms it is facing. In the globalization era there is a massive flow of goods, services, technology, capital and people; therefore the mission of the World Bank becomes more dense and complicated.

2.4 Poverty Reduction

The World Bank has to fulfill the Millennium Development Goals particularly in reducing the poverty. The process was accompanied by reforms of the economic policies by the developing countries whose major intention is reaching a stable access to food and water. The global economic crisis displayed a variety of improvement towards the stabilization of hunger, gender parity and school system progress. According to the World Bank data, 64 million people live on less than USD 1.25 per day (Table 1) showing a clear life improvement in these countries.

Table.2.1. Outlook for Poverty in Developing Countries

Global levels	1990	2005	2015	2020
Percentage of the Population living on less than \$1.25 a day				
<i>Post crisis</i>	41.7	25.2	15	12.8
<i>Pre crisis</i>	41.7	25.2	14.1	11.7
<i>Low-growth</i>	41.7	25.2	18.5	16.4
Number of people living on less than \$1.25 a day (Millions)				
<i>Post crisis</i>	1.817	1.371	918	826
<i>Pre crisis</i>	1.817	1.371	865	755
<i>Low-growth</i>	1.817	1.371	1132	1053

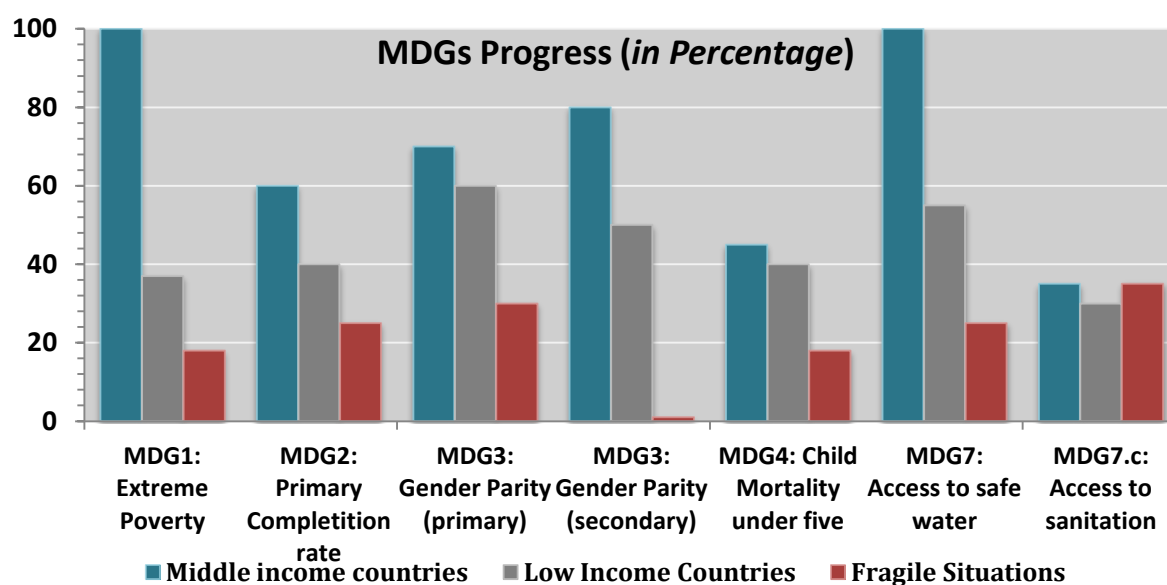
Data Source: The World Bank

As forecasted, in 2015, the estimated number of poor people because of the economical crisis will be 53 millions, living with less than USD 1.25 per day (Lin. 2008).

Despite this, these economies should focus on empowering the sustainable economic growth and alternation with the tough social policies. Another big challenge lies in key sectors such as health care system and infrastructure in affording education for the poor. The World Bank role in reducing the poverty is of an essential support for the local governments which have to protect the gains and continuously aim the MDGs level. Poverty enhancement is also related to unemployment and poorer remittances. They both collaborate on international demand layoffs. In order to subordinate poverty, the key strategy is trade.

The World Bank is having a major role in facing the challenges at conflict-affected countries by developing a widespread agenda. As indicated in the figure below, there is no Millennium Development Goal achieved by FCC¹¹. Finding their selves striving for MDGs accomplishment, they remain 40-60% faraway distant from middle-income countries and low income countries.

Figure.2.1. Fragile States Have Made the Least Progress



Source: Global Monitoring Report 2010

Furthermore, as a financial institution the World Bank assists in consulting for new economic opportunities aiming mainly the middle-income and low income countries reaching a double lending of USD 106 billion in 2009-2010.

Studying the role of aid, Collier (2007) argues that due to poor assimilative extents, aid turns out to be less proficient in countries where aid reaches 16 percent of GDP, keeping them in a holding pattern. Furthermore he brings up the conclusion that donors should support fragile countries.

The global crisis highlighted difficulties in achieving the MDGs, in collecting the necessary sources and in moving forward with the policies of economic growth. The World Bank MDGs goals have to be reached by year 2015 including the major efforts in reducing the poverty worldwide. The global economic crisis has distinct the poverty reduction as a core mission.

¹¹ Fragile and Conflict-affected Countries

Realizing the sustainable growth of the poorest countries represents a challenge for it. The World Bank on its future reforms evaluated an increase of global output being higher by almost USD 4 trillion bringing to new work places. The global growth is strictly connected with the growth in the developing countries. Their economic donation includes the rise of the import demand on the other hand the fast growing economic developments boost the investments bringing high returns.

2.5 Aspects of the strategies

An accurate and effective strategy for reducing poverty should enclose a particular plan to achieve the scopes that have to be fulfilled. The focus could include macro policies and structural policies which are needed to sustain the proper development in which the poor countries emerge. It is very rigid to promote the growth without progress in governance, like comprising the financial management or the public sector. The plan should restrain unambiguous policies and rich programs fittingly to the level of the costing.

The first focus regards the macroeconomic policy relevance together with the regulatory policy. Growth and development is beneficial for the poor countries, implementing for instance the exchange rate policy, inflation or to reinforce the social safety. As studied by Buira A. (2003), even though for the majority of the poor countries, policies like inflation cannot be implemented, simply because it will make it unfavorable for the poor and the adverse monetary policy impacts. A poverty reduction strategy should contain the following crucial elements:

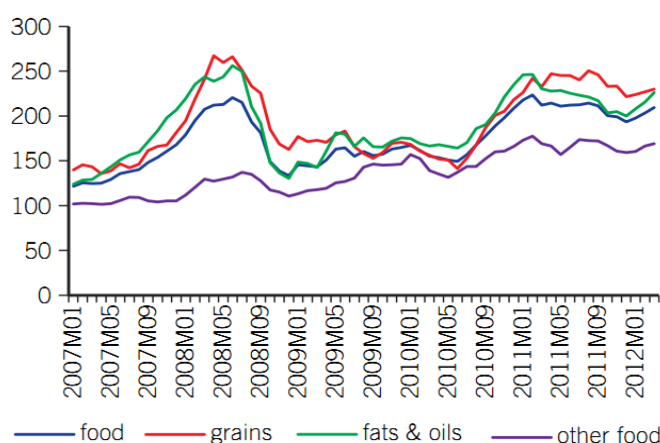
- Macroeconomic and structural policies that look after the development in which poor countries take part
- Governance enhancement policies together with the public sector financial management
- Real costing and fitting levels of endowment for the foremost programs
- Suitable division policies and strategies

The aspect of labor market policy is motivated and determined. The strategy focuses problems like labor standards, minimum salaries, taxes and other labor market rules. The second aspect regards the governance policies progress, confirming the intensified consciousness about the

right qualification of institutions. The countries are supposed to deal with concerns such as the accountability and transparency of government expenditures and the non-functionality of civil service. On the other hand, a corrupted government creates a weak authority for the poor countries to access in the government services, simply because they cannot have the capability to afford the services. The third aspect is the real costing and fitting levels of endowment for the foremost programs. It includes a precise strategy for increasing new government revenues external assistance. Additionally there is an obligation for rational budget information.

The forth aspect requires special awareness. It characterizes education, health, environment as well as social protection. At Mishkin S. F. (2007) as long as the recommendations from country to country differ, the policy, the implementation, the general organization clear up what makes poor households poor and use policies to moderate the resulting poverty. Given this, countries should express their strategies suitably while minding their own budget constraints, as long as reforms will not be put into operation if public expenditures cannot be afforded. Moreover, it is crucial an analysis of costs in a range of regional or gender distribution and distributional impacts of proposed policies. Poverty reduction strategies aim to make aid more valuable in reducing poverty. The World Bank acknowledged the duty to support and offer its assistance in sustaining the poverty reduction strategies. Some of the main poverty reduction strategies include global price trends, inequality, labor market and job trends. Global price trends indicate that international food prices improved by 8% from December 2011.

Figure.2.2. World Bank Food Price Index



Source: World Bank,
DECPG¹²

¹² Daily Brief Economics and Financial Market Commentary

After their peak in February 2011, they considerably decreased 6% from the previous level. Additionally the World Bank Food Price Index improved by 8% from December 2011 to March 2012, after four months of successive price falling. A relevant factor that induced the price boost in Europe was the financial crisis of 2008 occurrence.

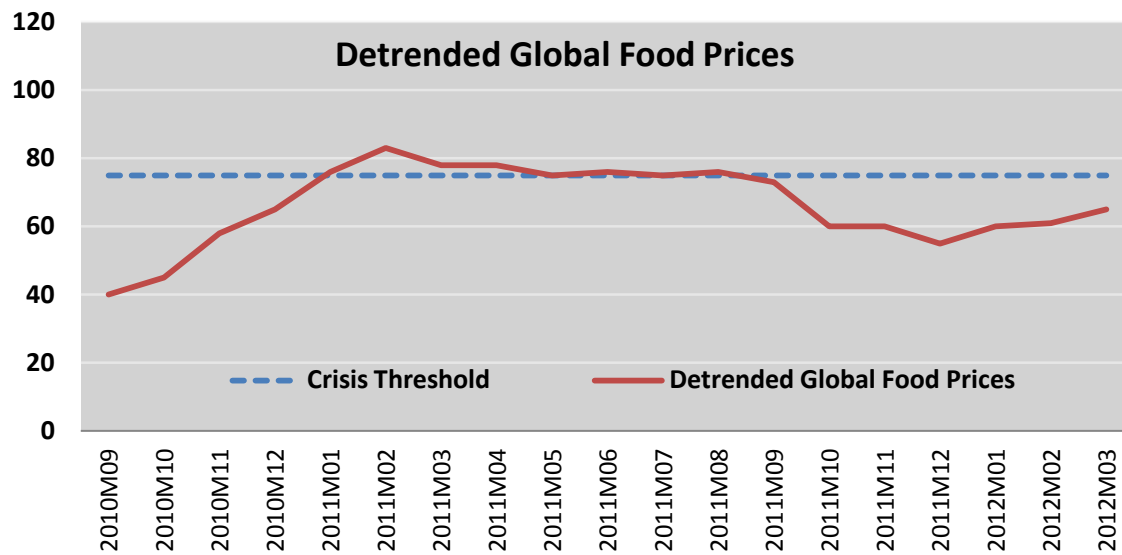
The figure above illustrates global food price index for food, grains, fats and oils, and other foods, are still performing high levels against those of February 2011 ranks. Since January 2012, they systematically increased each month. Performing a raise of 13% quarterly, Fats and oils achieved the most augmented values, rather than 6% in the other foods and 4% in the overall price of grains. In spite of all the monthly and yearly lapses, the volatility of the prices for food remains noteworthy with respect to the continuous emphasizes.

In situations of severe food insecurity which could have been predictable or even cyclical the responses can be different. The contrary happens in the opposite situations of unpredicted shocks in which the responses do not vary much.

In order to deal with this hollow, there is an implementation of a special support which serves to define and monitor at global levels and not only the crisis of food price. The main characteristics of this framework stand in the global food prices concentration without considering core factors such as distribution and food access.

As illustrated in figure 2, still, in March 2012 the global food price index is lower than the financial crisis level, even though there is a call for cautiousness in the range of present high food prices. Yet, in many parts of the world the domestic prices are increasing at exceeding levels. This is being better resembled from the detrended global price index.

Figure.2.3 Detrended Global Food Prices (2010 – 2012)



Source: J. Cuesta, A. Htenas and S. Tiwari, “A Global Food Price Monitoring Framework for Rapid Response”, 2012

Inequality as a second strategy focuses on a very intense problem that the economies are striving nowadays. It is more than obvious that those economies which obtain advanced standards of living and experience a high development stimulate inequality. Differences across nations guide towards political disruption and social disorders. Thus, the World Bank policies tend to create an equivalent prospect for the nations, as the best way to develop its general wellbeing.

Chapter 3

The Role of the World Bank in the Region

3.1 Motivations for Aid

The World Bank aid on the Balkans has been invested to support the regional development. Its major activity is based on the poverty reduction, reaching the sustainable economic growth and reaching the macroeconomic stability. Throughout this overview it can be distinguished that the region is rather heterogeneous in both population and income level. Within devoted discussions together with the European Commission, the Western Balkan nations are big importance issue, especially on their road to EU integration.

The prime purposes of the strategies in the Western Balkans include reduction of poverty, ascertain stability and development, increasing wealth and ascertain harmony. As also pointed out in Svejnar, J. (2002), in order to grant a solid basis for supporting growth, it is considered necessary a more profound and steady realization of domestic reform plans, solid institutional authority, and a more improved infrastructure. In comparison to the other international organizations, the World Bank offers a long term support at a universal outlook. The World Bank country assistance is a designed work of World Bank Group help to each particular country. As a start, it identifies the economic problems of the country, estimates government policies and the precedent Bank support, analyzes main concern region for future Bank action, suggests specific products for Bank help, and finally it offers an outline for control performance of Bank and receiver. The World Bank country assistance is a product of a discussion practice with associate nations, civil society councils and collaborator organizations such as European Commission, EBRD, and EIB.

In this region people live on half income level of five central European nations. From the social perspective, there are minorities and population groups who could contrast more the ethnic

conflicts and the poverty could generate tensions leading to a fragmentation of the society. The Kosovo crisis has influenced in the regional economies negatively by lowering the total output by two percent for countries like Albania, Bosnia and Herzegovina, FYROM, Croatia and Romania. This brought to an increase of the current account deficit for the region.

Characterized of small economies, their growth and progress is greatly conditional upon international organizations as well as European markets trade. Integration with foreign structures will imply a stronger public sector, a lower corruption level and stability impact. Countries like Albania, Bosnia and Herzegovina, Macedonia, and Serbia live at the half income compared to the Central European countries (nearly about USD 2,200 per capita). Through the transitory process these economies managed to recover the income levels at only 75 percent, therefore there is a high inequality and declining living standards. There are four key factors that have affected in this: the first aspect includes the industrial structural imbalances in this region due to the weak role of the institutions. Secondly, being a war and ethnic conflict region, the economic activity was restricted, and the institutional strength of the civil societies very limited. The macroeconomic climate was not favorable to the business investments standing as the third factor.

The major strategy for reducing the poverty in the South Eastern region requires specific policies and governmental support. The past ten years represent a phase of transition for these countries characterized by ethnic conflicts and income inequalities. Political obstacles and the low institutional governance have prevented these countries to reach the full functioning of the market. Therefore, the rising conflicts worsened their overall performance and declined the living standards experiencing an inferior economic performance.

After the end of the Kosovo conflict and Dayton Agreement, the Balkans display social issues regarding their separation from the homes and properties. Bosnia and Herzegovina citizens that were displaced reached more than the third of it, and the Kosovo Albanians experience the same social and economic uncertainties. The political and economic costs of the region are generally highlighted by the living standards decline and a social perspective which has to be improved. Accelerating the steadfast economic reforms could support these economies to come out of the transitory phase.

The South Eastern countries commitments on an intra-regional cooperation could support the further developments of the strategies, increasing the major chances of their effectiveness. The reduction of poverty would come with the integration with the European Union, since the production and import export opportunities would be higher bringing to the goal fulfillment. Specific economic reforms have to be undertaken reassuring the cooperation with the European structures. Moreover, building a new economic face the region countries were provided with the certain financial and experience consulting in managing technically the reforms. The independence of the private sector remains a priority for an eventual World Bank focus. Investing in strengthening this sector aims business climate improvements therefore generation of employment.

The challenges mentioned above lead towards the aid motivations. The first is that the World Bank should play the role of the stability factor for the region. Improvements in infrastructure through investments will help to achieve the prosperity and sustain the economic growth as well as the environmental safeguard. The combining of the local efforts with the regional development policies of the World Bank are the key strategic approach for assuring stability throughout the Balkan zone.

The World Bank role is essential in promoting the initiatives to overpass the fractures of transitory phase. The free flow of trade, people and ideas would bring the stability to a very good macroeconomic level. Furthermore, the economic growth objectives fulfillment reduces the poverty level and the political tensions. The World Bank has a clear vision on reducing the imbalances for the Balkans through main investments in restructuring the infrastructure, healthcare system and high improvements of the administrative governance.

The poverty reduction initiatives of the World Bank involve the economic reforms that are being promoted and monitored by this authority alternating the indispensable role of the local government. Strengthening of the institutional role would be a parallel initiative in competing with the global community and a part of every investing approach.

The World Bank's vision aims the social developments, open opportunities for a stable prosperous region in which the governments implement policies on the law strengthening and lowering the corruption level. The institutions and the state execution of power have to include a greater dedication of the civil society and financial management.

Lastly, there was a clear need for the enhancing investment policies alternated with overall political reforms undertaken by the local governments. The World Bank's core mission was based on the crucial processes such as the liberalization of trade, the restructuring of the financial system and the privatization of enterprises.

3.2 Determinants of Aid

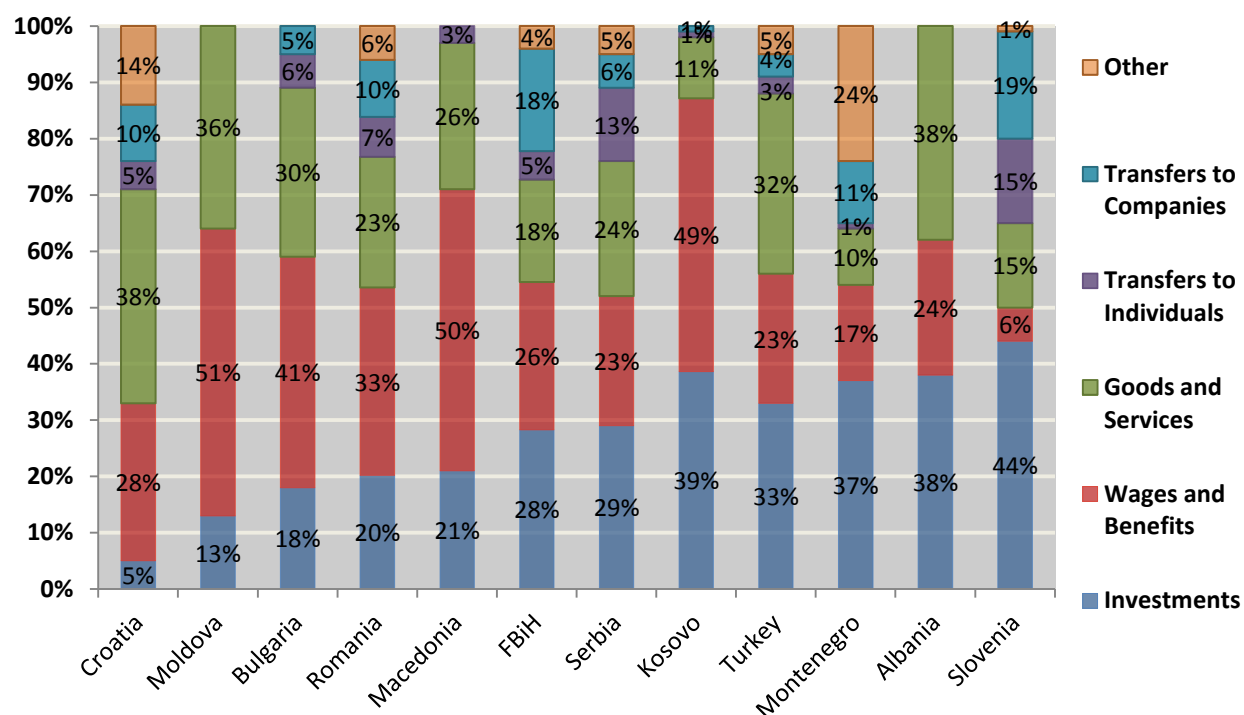
The role of institutions is very crucial towards poverty mitigation, especially to create the guarantee that public services are distributed to all the categories of population, as well as the poor citizens. Good governance covers a group of solid institutions that construct political and economic environment. For this, domestic institutions should efficiently apply regional guiding principles. Regional policies are required to be set up throughout domestic institutions.

Despite of economic basis, political and historical reasons are very important to understand impacts of aid in each country. Alesina A. (2000), managed to find a theoretical and empirical approach of the implication that foreign aid flows are determined mainly by the political and strategic variables in the host country, rather than the economic demand and policy indicators.

Bräutigam D. (2004) on her study of aid and governance relationship in Sub-Africa, found out that aid can reinforce domestic institutions, liberate governments from compelling revenue restrictions, and pay more salary to civil retainers especially in poor countries. On the other hand, the study was criticized from a different approach of Moss T. and Pettersson G. (2005) regarding the impending negative impacts of aid dependence on government institutions, simply because political institutions might be harmfully influenced. Authors came into the conclusion that those countries which obtain extensive proportion of the foreign aid, in fact tend to have a less developed popular legitimacy and institutional effectiveness, because they do not generate enough revenues for the national community. They brought a closer view of the fact that the low incomes nations which are embattled for significant enhancement in aid, traditionally receive unprecedented flows. Western Balkan countries have notable drawbacks in public sector services, institution rules and infrastructure for private sector improvement. Dominant obstacles

to growth and progress particularly challenging across the area, comprise taxes and regulation as well as company licensing.

Figure.3.1 Local governmental expenditures composition, South-East Europe



Data Source: Network of Associations of Local Authorities of South East Europe, NALAS

Note: Data for Turkey are as for 2009.

The ongoing wide participation of the state into the productive sector is improper and averts public sector capital towards a bad intrusion. An operative financial sector plays a vital role in the economy, by means of savings and investment.

There is a considerable distinction of expenditures structure across the region and the South-East Europe counties. Every nation has organized the structure of spending differently. The share of wages is higher in Moldova, Bulgaria, Macedonia as well as Kosovo, but on the other hand the investment share resides in high percentages for the same countries.

The financial sector of the region stands relatively untrained and not improved in the process of distribution of services to the financial intermediation towards the economy. Such malfunction implies backwardness on statistical indicators, especially compared to the European standards.

Loaning to private sector is limited in most of the countries of the region, and banking system is characterized by competitiveness deficits as well as bad credit holdings from banks. Weak public sector institutions represent a barrier for private sector improvements. As a consequence, corruption and a bad quality service may rise. Reforms are based in three chief bases like budget reform, public sector and civil service improvements, and legal and judicial system development. Moreover, South Eastern Europe nations have difficulties in budget implementation because of transparency.

Those governments that substitute the local resources with the foreign aid could not generate efficient revenues and simply lead to the reduction of the developing investments.

The relation between the aid and the governance quality is empirically negative, showing the aid dependence (Brautigam and Knack, 2004). The aid impacts negatively in incentive reduction and in institutional reforms by creating a moral hazard. In this case the governmental performance in good developing policies weakens based on Heller and Gupta (2002).

The following plots show the all five governance indicators of the region namely voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. Statistical data show that approximately in all indicators, Bosnia and Herzegovina has the lowest rank for the region; followed by Kosovo and Albania **(Figure.3.2.Balkans Governance Indicators)**.

1.Voice and Accountability

Country	Year	Percentile Rank (0-100)	Governance Score (-2.5 to +2.5)
ALBANIA	2010	53.1	0.1
	2009	51.7	0.11
BOSNIA-HERZEGOVINA	2010	45.5	-0.12
	2009	48.3	-0.03
KOSOVO	2010	42.2	-0.17
	2009	45	-0.11
MACEDONIA	2010	52.6	0.09
	2009	52.6	0.11
MONTENEGRO	2010	55.5	0.21
	2009	56.4	0.28
SERBIA	2010	56.4	0.29
	2009	56.9	0.29

2.Political Stability/Absence of Violence

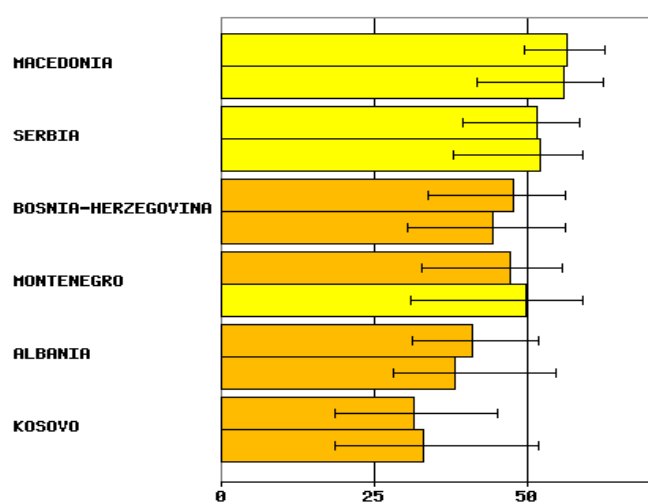
Country	Year	Percentile Rank (0-100)	Governance Score (-2.5 to +2.5)
ALBANIA	2010	38.7	-0.18
	2009	42.7	-0.05
BOSNIA-HERZEGOVINA	2010	25	-0.67
	2009	25.6	-0.63
KOSOVO	2010	14.2	-1.16
	2009	59.7	0.41
MACEDONIA	2010	29.2	-0.47
	2009	35.1	-0.29
MONTENEGRO	2010	64.6	0.5
	2009	74.4	0.79
SERBIA	2010	31.6	-0.41
	2009	28.9	-0.5

3. Government Effectiveness

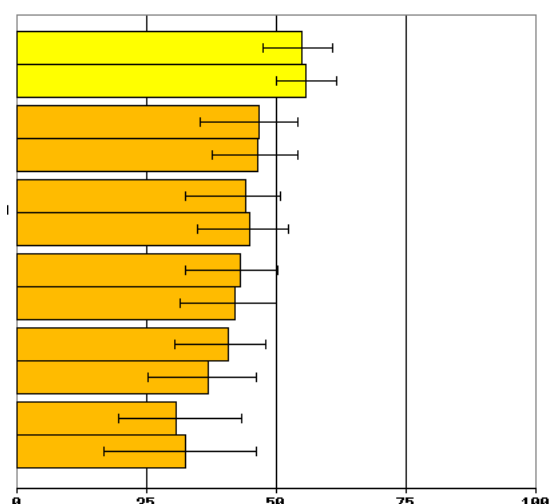
Country	Year	Percentile Rank (0-100)	Governance Score (-2.5 to +2.5)
ALBANIA	2010	45.5	-0.27
	2009	47.8	-0.24
BOSNIA-HERZEGOVINA	2010	27.3	-0.73
	2009	28.2	-0.7
KOSOVO	2010	32.5	-0.6
	2009	42.6	-0.4
MACEDONIA	2010	48.3	-0.18
	2009	52.2	-0.1
MONTENEGRO	2010	57.9	0.08
	2009	55	-0.01
SERBIA	2010	51.2	-0.11
	2009	51.7	-0.11

4. Regulatory Quality

Country	Year	Percentile Rank (0-100)	Governance Score (-2.5 to +2.5)
ALBANIA	2010	56.9	0.23
	2009	57.4	0.25
BOSNIA-HERZEGOVINA	2010	50.7	-0.1
	2009	50.2	-0.1
KOSOVO	2010	52.2	-0.04
	2009	55	0.13
MACEDONIA	2010	59.3	0.28
	2009	58.9	0.26
MONTENEGRO	2010	51.7	-0.06
	2009	52.6	-0.02
SERBIA	2010	52.6	-0.02
	2009	51.2	-0.07



5. Control of Corruption



6. Rule of Law

Data Source: World Governance Indicators, 2010



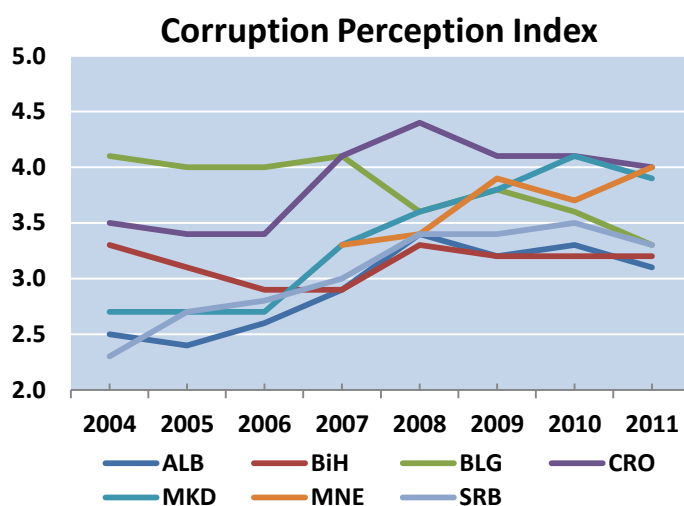
Corruption and poverty are in positive relationship as of Gupta, Sanjeev, Davoodi H. and Alonso-Terme R, (2008)¹³, implying an unequal instant effect whenever the poor should pay for social registrations, education and health care. Thus, they undergo the incapacity to pay the required inducement (Mauro, (1998))¹⁴.

In January 1998, the Commission against Corruption was subjected to implement a program plan against corruption, to execute an efficient anti corruption supervision towards governmental institutions, and to insure the collaboration between global financial institutions and the anti corruption legislation premises. The World Bank in cooperation with USAID applied a study of enterprises and households, as well as the survey of the non-governmental organization of Albanian Center for Economic Research to public executives.

Table.3.1. CPI score comparison among the Balkan region

Rank	Country	2011	2010	2009	2008
95	Albania	3.1	3.3	3.2	3.4
91	Bosnia and Herzegovina	3.2	3.2	3.2	3.3
86	Bulgaria	3.3	3.6	3.8	3.6
66	Croatia	4	4.1	4.1	4.4
69	Macedonia	3.9	4.1	3.8	3.6
66	Montenegro	4	3.7	3.9	3.4
86	Serbia	3.3	3.5	3.4	3.4
		2007	2006	2005	2004
95	Albania	2.9	2.6	2.4	2.5
91	Bosnia and Herzegovina	2.9	2.9	3.1	3.3
86	Bulgaria	4.1	4	4	4.1
66	Croatia	4.1	3.4	3.4	3.5
69	Macedonia	3.3	2.7	2.7	2.7
66	Montenegro	3.3			
86	Serbia	3	2.8	2.7	2.3

Data Source: Transparency International, Annual Reports



As pointed out by the results, roughly two-thirds of public executives reported bribery where almost three-quarters of production firms declare to pay bribes; one-half of the businesses state that they pay inducements to public representatives implying a 7 percent cost of corruption.

¹³ Gupta, Sanjeev, Davoodi H. and Alonso-Terme R. (1998), "Does corruption affect income inequality and poverty?", IMF Working Paper.

¹⁴ Paolo Mauro, "Corruption and the Composition of Government Expenditures", Journal of Public Economics 69, 1998: 263-279 shows that corruption decreases government expenditures on education.

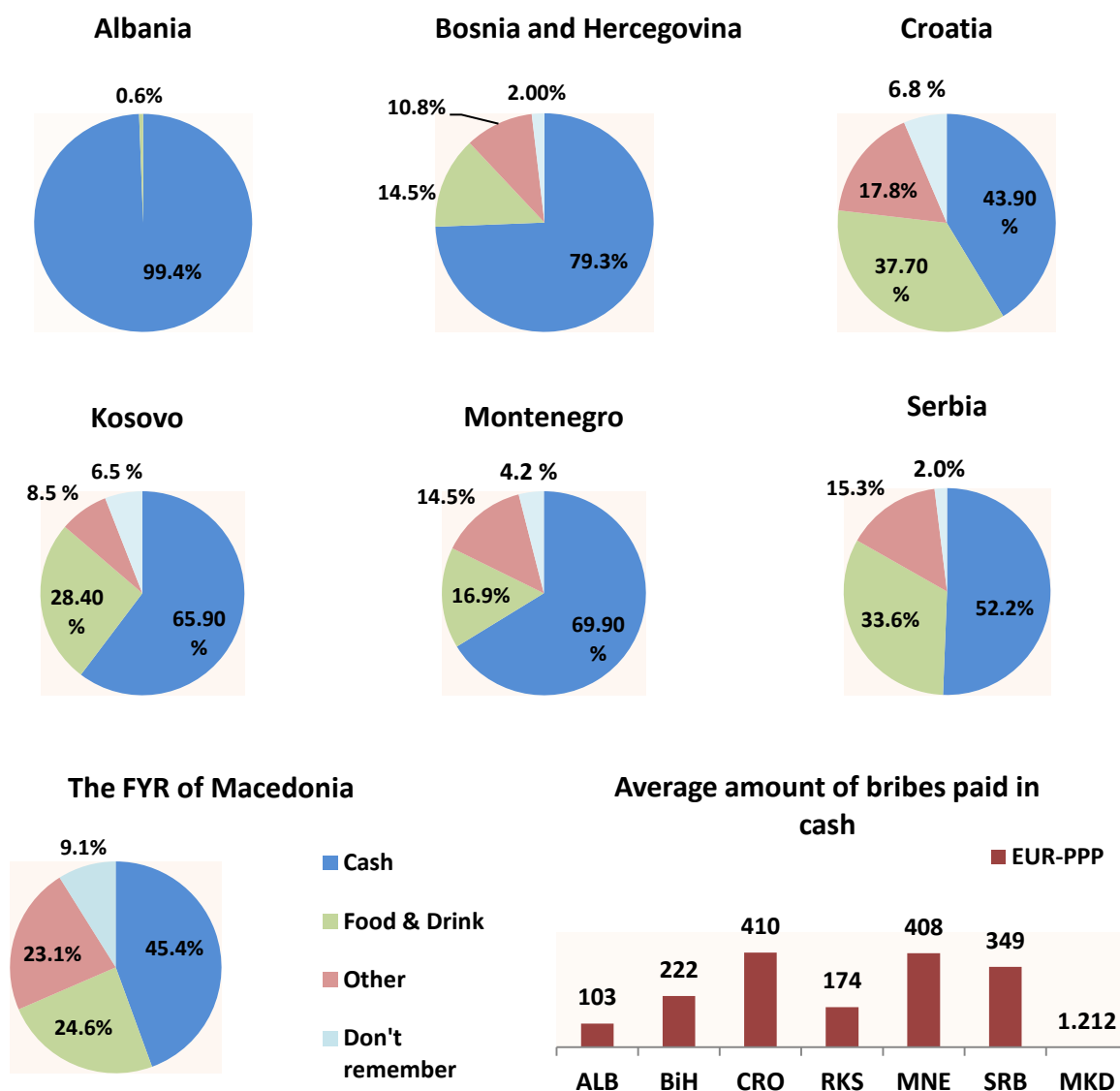
The Council of Europe and the OECD supported by the Special Coordinator of the Stability Pact, planned a program for all the Western Balkans countries in order to achieve concrete actions and changes, endorse transparency, intensification of the rule of law (accurate separation of the executive, legislative and judiciary powers) and authorizing an active civil society. CPI captures only the wide trend with a lag in time, excluding the unofficial payments. Albania was ranked 95th out of 178 nations on the index, yet, far from its neighbor countries. In a rank from one to ten, zero score indicates strong corruption and 10 very clean (Tab.4.1).

As of Alesina et al (2007), the connection between foreign aid and government clearly shows that corrupted governments tend to get more aid. Controlling the corruption level in various sectors of the countries, the World Bank in cooperation with other international authorities like the European Commission and the United Nations Convention against Corruption, supplied the countries by following an extensive surveys.¹⁵ The main purpose of the surveys was to achieve information regarding corruption in administrative levels on each specific country. To combat corruption in the western Balkans is a very complex issue, as long as there are no understandings like how the phenomenon is developed. The results concluded that one of the most common occurrences for the region is the development of bribery.

According to the types of bribe payments there is a notable distinction across countries in terms of variability. The following plot indicates the proportion division for each nation in terms of bribe forms of payment.

¹⁵ United Nations, Corruption Prevention, 2007

Figure.3.3 Percentage distribution of bribes paid by type of payment and average amount of bribes paid in cash in EUR PPP by country

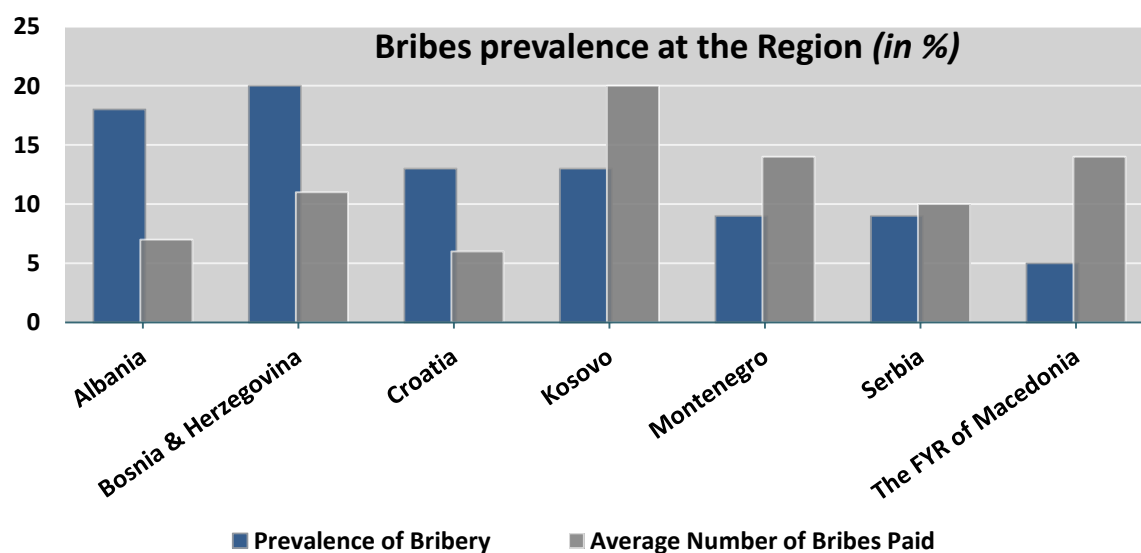


Source: UNODC, 2010¹⁶

Albania has significantly a cash-paid bribe of 99.4 percent, whereas for Serbia and Croatia one-third of bribes are paid as food and drink.

¹⁶ Statistical data for EUR-PPP and Kosovo are gathered from International Monetary Fund estimates, IMF

Figure.3.4 Average number of bribes paid and its prevalences



Data Source: UNODC, 2010

Interestingly, as the chart indicates, the prevalence and the frequency of bribery are in disparity. As there are intense variations across countries, Kosovo has the highest average for bribes paid (20.3%) and prevalence (11.1 %,) whereas in Albania, the prevalence rate is high compared to the average, indicating that bribes are paid less frequently.¹⁷

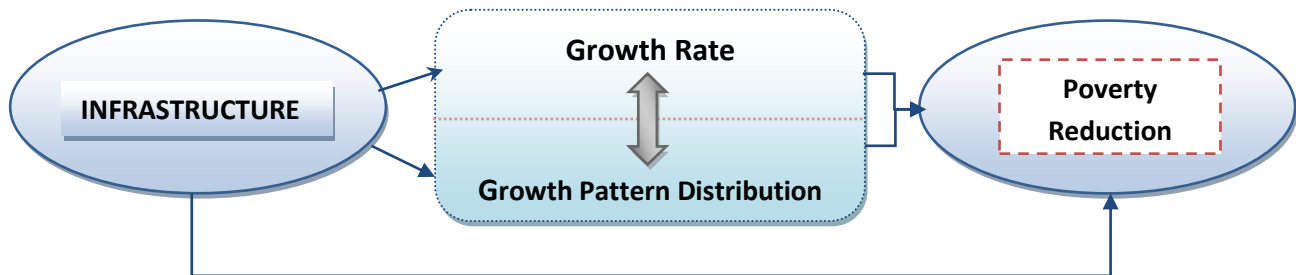
The high level of corruption in receiving countries is correlated positively with the aid flows for the period of 1990s based on references Alesina and Weber (2002). According to Easterly (2003) the incentives on improving the aid effectiveness within the donor organizations appear not very much important compared to the aid agencies which have a bureaucratic aspect and to the mostly crucial commercial and foreign policy objectives of the governmental donors.

Supporting infrastructure is a crucial key towards economical development. Infrastructure services like energy, transport and transport make trade achievable not only in connecting nations with each other, but also making trade operations easier. On the other hand,

¹⁷ Prevalence of bribery is the estimate of the number of natives who paid the public executives, at least once a year. The average prevalence of bribery is on the other hand is set at 12.5 percent.

infrastructure nurtures social unity among the countries, developing both physical and cultural interaction.

Figure.3.5. Infrastructure Impact on Poverty



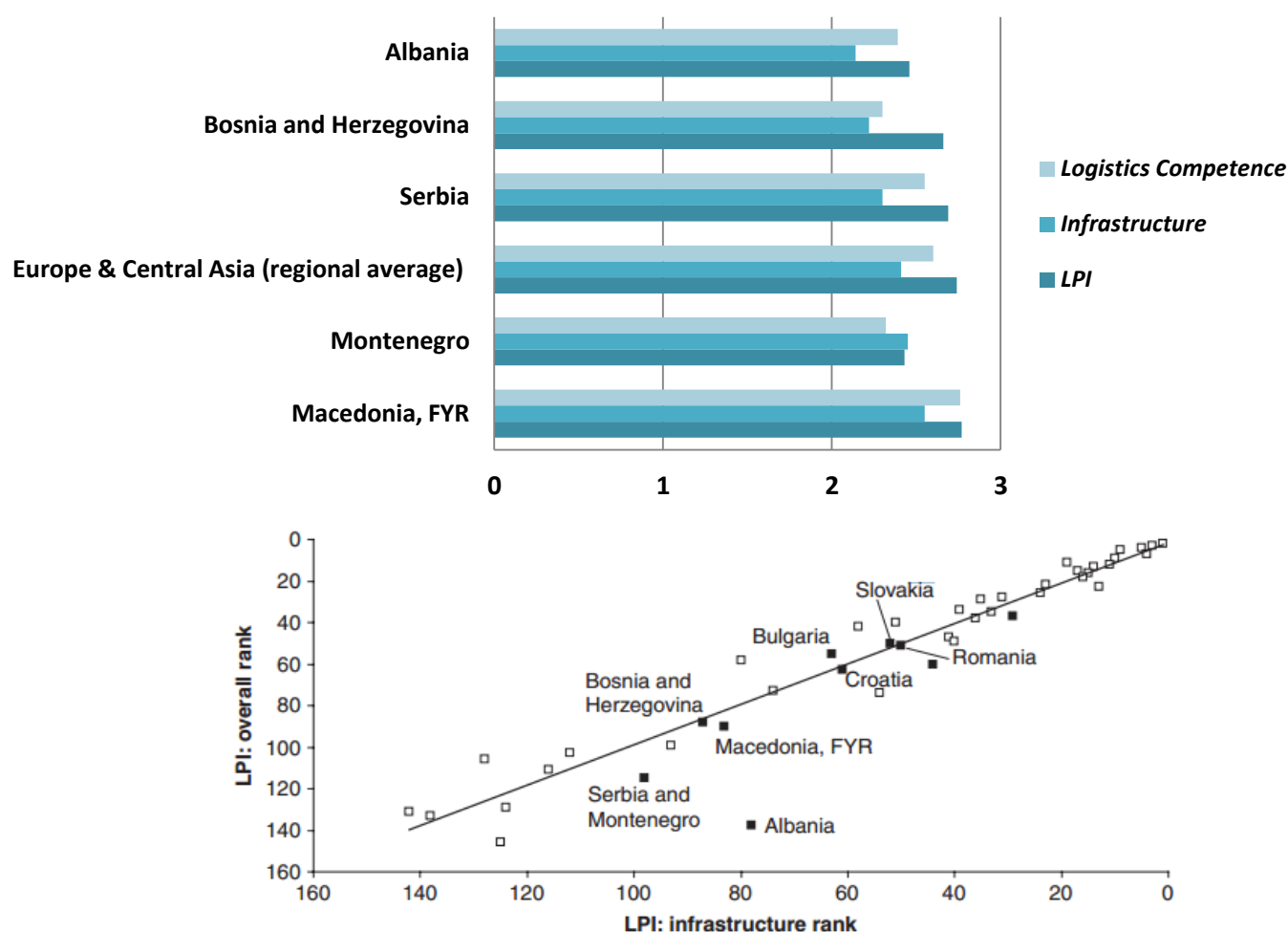
Source: Author

On its way of progress, infrastructure may be a potential tool against poverty. Impacts may be resultant mostly important towards the non-income features of poverty like education, healthiness and social solidity. The scheme depicts the process of contribution among infrastructure and its impact on growth and poverty level, merely because it creates a helpful materialization of the MDGs. An uphold system of infrastructure form deliberate advantages in reducing transport costs and increases expectations for healthier business prospects.

The South-East Europe region has soaring needs for infrastructure. With approximately 4 percent of GDP, infrastructure seizes one half of the public investments of the region, thus it is hard to increase sufficient finances from traditional sources. In Qerimi (2002), the author studied the investments of the World Bank could create a safe base of peaceful co-existence between the country region fulfilling this way the reaching of tolerance and openness. The good political and economic relations form a basic EU requirement. Once the infrastructure is improved the economic developments the Western Balkan countries would be increased and would reach the good neighborly relations. The author concluded that both institutional and technical infrastructure may lead the Balkans to a supplementary financial improvement by integrating the regional collaboration.

Logistic Perception Index is a from one (worst) to five (best) rank, based on the performance level revealing the quality of trade and transport, quality of logistic services, effectiveness of custom clearance processes, and the ability to track and trace consignments.¹⁸

Figure.3.6 Logistic Perception Index



Source: Global Facilitation Partnership for Transportation and Trade¹⁹

Note: Albania in the trend line is excluded being an outlier as well as the infrastructure rank is being scaled down by a factor of 10.

¹⁸ The World Bank, Indicators.

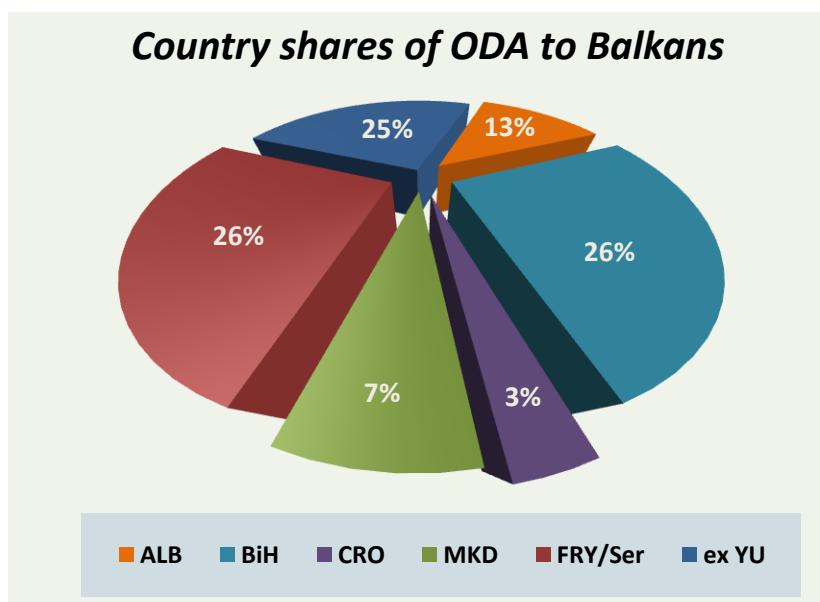
¹⁹ Link at <http://www.gfptt.org>

Albania, Macedonia and Serbia (Fig.4.6) in the overall rate and in the infrastructure rate are characterized from a bad performance at the general LPI compared to the indicators of infrastructure Kathuria (2008)²⁰, meaning that the human capital configuration requires additional time.

3.3 ODA Aid

OECD defines ODA as the flows of authorized financial support to evaluate aid, controlled with the endorsement of the economic growth and welfare. Official organizations include federal and local departments as well as agencies. According to the OECD, Glossary of Statistical Terms definition, ODA aid includes finances of government organizations mostly to developing countries. On the other hand, ODA receipts encompass the payout by the contributors and the multilateral organizations.

Figure.3.7. ODA shares to Balkan region



Source: Author computations

²⁰ “Western Balkan Integration and the EU”, The World Bank 2008

Western Balkan countries have always been characterized by heterogeneous economic trials. The historical factors of this region have defined closely the further political and economical levels. The distribution of the aid shares is made on the basis of a country's development. The war in Bosnia and Herzegovina was an international armed conflict from 1992 to 1995 that allocated many aids in the country's economic recovery. Another example is the ODA share for Serbia and Montenegro which changed in two different ways, after Montenegro was transformed into an independent state on 26 May 2006. Historical events defining political and economical aspects shaped the further nature of aid performance which is characterized by an assorted turmoil. Thus, the local governments become addicted to foreign aid.

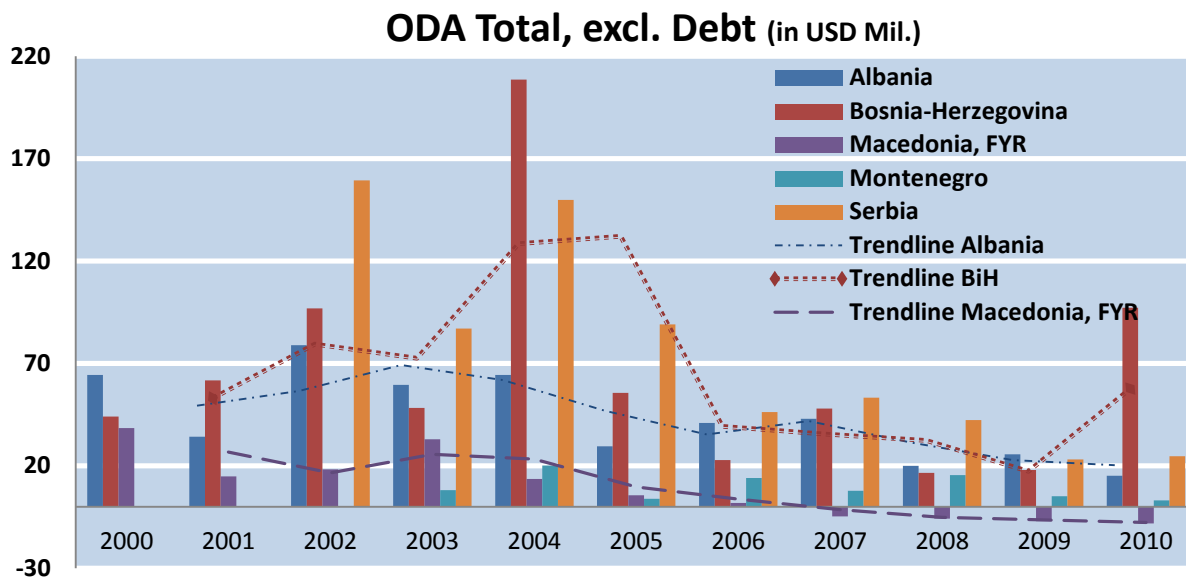
A World Bank study in 1998 showed that the Balkan countries profited greatly from the ODA aid, especially in the post-war period, and this was not related to the quality of economic management of the country and achievement of development goals. Both good and bad economic management regimes received roughly the same amount of assistance measured as a percentage of their GDP.

Montenegro and Serbia are listed as upper middle income countries and territories²¹, whereas Albania, Bosnia and Herzegovina and FYR of Macedonia are lower middle income countries.²² The amount of aid to low income countries is the core contest of public policy.

²¹ Effective for reporting on 2008, 2009 and 2010 flows, per capita GNI USD 3,706 – USD 11,455

²² Effective for reporting on 2008, 2009 and 2010 flows, per capita GNI USD 936 – USD 3,705

Figure.3.8. ODA Total, excluding debt in Western Balkan countries

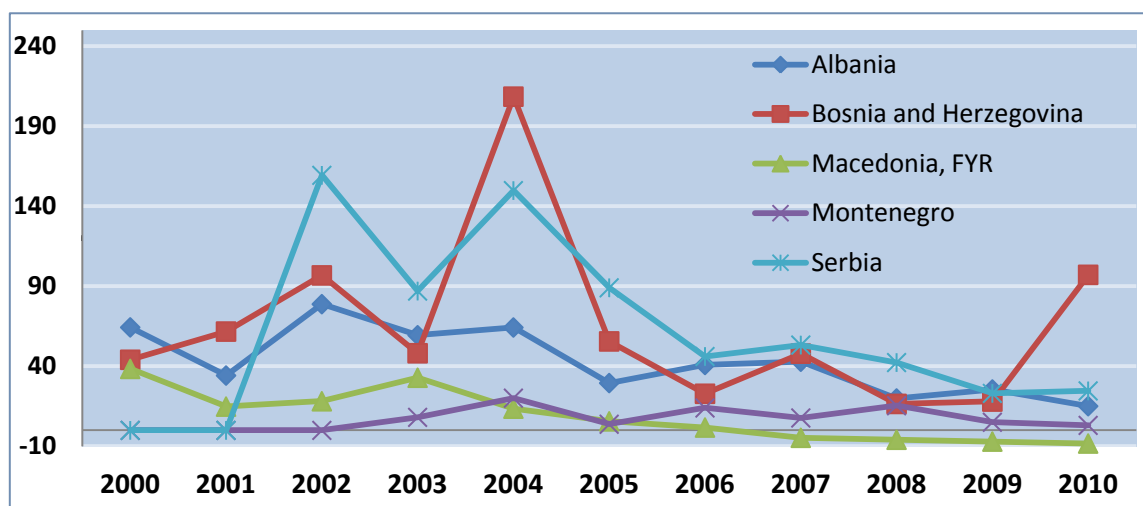


Data Source: OECD Database²³

The highest amounts of ODA aid belong to the receipt countries like Bosnia and Herzegovina, Serbia, and Albania. In 2000 Albania had the highest aid of USD 64.36 Millions, amount which changed in a decrease of almost 40% in 2001 where Bosnia and Herzegovina had USD 61.74 Millions of ODA aid. Serbia is a dominant receipt country among region in 2002, 2003, 2005, 2006, 2007 and 2008, whereas in 2004 it had a significant augmentation of aid of USD 208.55 Millions implying a 332.7% increase from 2003 to 2004.

²³ Donor is IDA and the amount type is in current prices (USD Mil.). Trend lines for the lower middle income countries are of two period moving average

Figure.3.9. Trends in ODA aid to Western Balkans (USD Millions)



Source: Author compilations

In 2009 Albania had a 28.19% increase in aid from the previous year, making it the uppermost receiving country among region, followed by Bosnia and Herzegovina in 2010 of more than 79% increase of aid from USD 18.02 Millions in 2009, to USD 97.19 Millions for 2010. (Fig.4.9)

As shown in the figure the ODA aid trends reflect the impulses that the Balkan countries obtained through the last ten years. In general the trends are falling ones. The case of Macedonia, FYR is the only country which aid resulted in negative numbers. The reason lies in the fact that with the upcoming years the percentage of aid was decreasing and the flows are represented negative. From year 2007 the share of ODA aid for this country has diminished every year.

Table.3.2. ODA aid by recipient country in USD Million

Country/Region	ODA share	Annual averages	
	2000-10	1990-99	2000-10
Albania	7.2 %	371	395
Bosnia Herzegovina	13.1 %	762	713
Macedonia FYR	5.3 %	109	288
Montenegro	0.8 %		46
Serbia	27.2 %	172	1488
Croatia	3.1 %	59	172
Slovenia	0.7 %	50	39
Turkey	12.2 %	651	667
Europe, regional	12.4 %	228	680

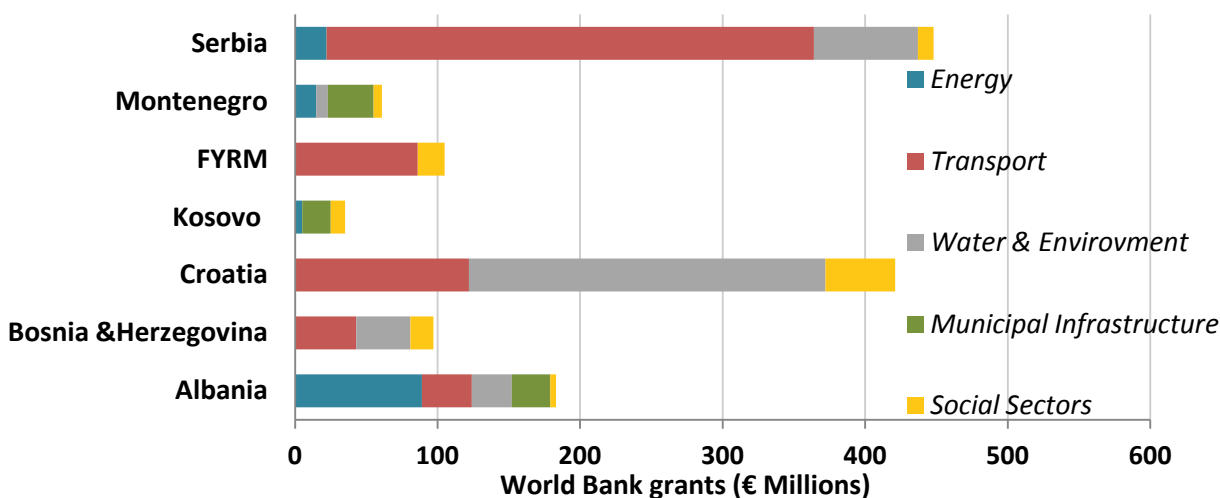
Data Source: OECD

Among the other European receiver countries the western Balkan countries, represent a substantial amount of aid. In annual average measures, both Albania and Bosnia Herzegovina exceed the USD amount aid compared to regional Europe; respectively 38.5 % and 70% for the period 1990-1999 and 72% and 4.6% for the period 2000-2010. In terms of ODA shares, Serbia is the overriding country among the Balkan region, with approximately 54.41% more than Europe regionally.

Financing activities in Balkans for the period 2007-2009 indicate that the total amount of aid from the World Bank is Euro 1348 Mil. (Table.3.3)

Table.3.3. WB Number of interventions and total amount of aid by sector and country (Mil €)

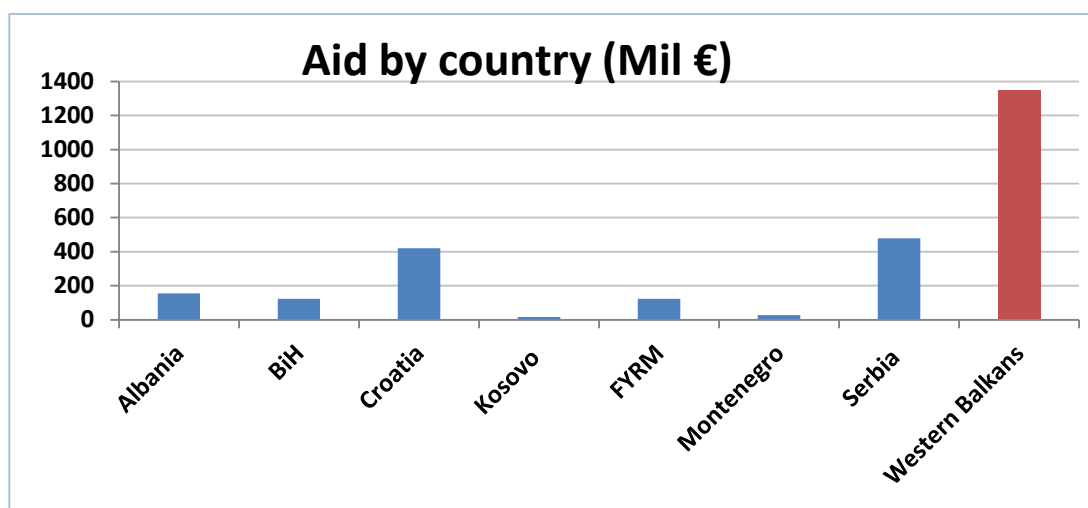
	Energy		Transport		Water and Environment		Municipal Infrastructure		Social Sectors		Total	
Albania	2	(89)	2	(35)	3	(28)	0	(0)	1	(4)	8	(156)
Bosnia & Herzegovina	0	(0)	2	(43)	3	(38)	2	(27)	2	(16)	9	(124)
Croatia	0	(0)	2	(122)	5	(250)	0	(0)	2	(49)	9	(421)
Kosovo	2	(5)	0	(0)	0	(0)	0	(0)	2	(10)	4	(16)
FYRM	0	(0)	2	(86)	0	(0)	1	(20)	1	(19)	4	(124)
Montenegro	2	(15)	0	(0)	1	(8)	0	(0)	1	(6)	4	(28)
Serbia	1	(22)	2	(342)	2	(73)	1	(32)	1	(11)	7	(479)
Western Balkans	7	(131)	10	(604)	14	(396)	4	(79)	10	(115)	45	(1348)



Data Source: WBICP database, 2010

Table.3.4. Number of WB projects and total amount of loans and grants by country and project status

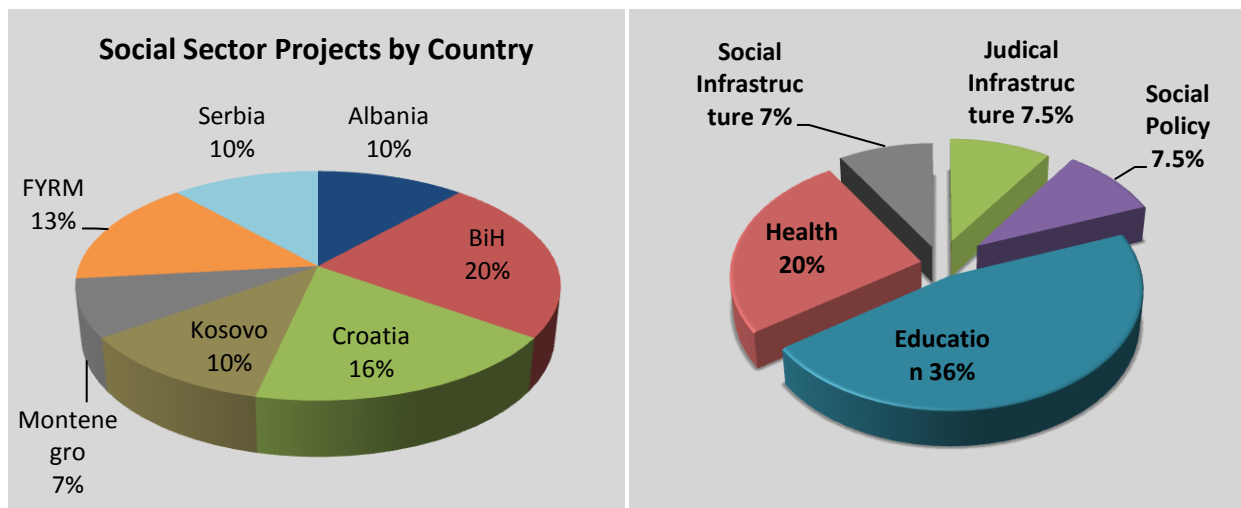
Countries	Number of Projects (Total aid)
Albania	8 (156)
Bosnia & Herzegovina	9 (124)
Croatia	9 (421)
Kosovo	4 (16)
FYRM	4 (124)
Montenegro	4 (28)
Serbia	7 (479)
Western Balkans	45 (1348)



Data Source: WBI database

The World Bank aid for the Western Balkans is shown as above. Between years 2007 and 2009 countries like Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYROM, Serbia and Montenegro profited of overall number of 45 World Bank projects. The total value is of 1348 millions of Euro invested in sectors as presented above like transport, energy, water& environment etc. The highest number of projects was reached in water & environment sector, followed by social sector. Results of the analysis display that the World Bank has an active role in this region through a very sustainable financing in key economic sectors. Serbia is the most financed country for 2007-2009 period achieving loans of 479 millions of Euro. The World Bank policies are focused in improving the social sector as well as in quality of life. The aid is essential for the region after hard conflicts and wars it could reorganize these economies.

Figure.3.10. Social Sector projects by country and subsector



Source: Author computations

3.4 Albania as a case

In an upward growth rate of six percent for the past ten years, Albania is the most rapid developing economy in the region, marked from IDA in 2008. Together with quick social changes, it preserved an established inflation, exchange rates and interest rates. The country had a thriving evidence of continuous growth especially under the World Bank Group Country Partnership Strategy (CPS) support. Even though unemployment is still inactively developed, the monetary and fiscal policies were favorable in order to develop macro economical growth among the region. The main reason of a progressive economic environment was the role of IDA and other active actors of development partners.

The quick boost of the GDP is due to the notable decline in poverty. The poverty headcount ratio declined with approximately 13 percent from 2002 till 2008 marking a range of roughly half of Albania's poor citizens. Unfortunately, although being a fast developing country, Albania remains an outlier for most of its European neighbors.

Table.3.5. Albania's improvements towards MDGs, regional comparators

MDG	Indicator	Original 2015 target	New 2015 target	Latest	EU10 & SEE average
Extreme Poverty	Absolute poverty headcount	13 %	0 %	12.4 %	-
	Extreme poverty headcount	0 %	0 %	1.2 %	2 %
Basic Education	Net enrollment in basic education	100	96	89	93 (2007)
	Net enrollment in secondary education	-	-	60	91 (2006)
Gender Equality	Gender balance in basic education	1	1	0.96	0.97 (2007)
Child Mortality	Infant mortality (per 1000 births)	10	10	11.1	6.6 (2008)
	Under 5 mortality (per 1000 births)	-	-	14	7.9 (2008)
Maternal Health	Maternal mortality (per 100,000)	11	11	20.9	10 (2005)
HIV/AIDS & TB	TB mortality (per 100,000)	2.5	< 2.5	0.5	4.8 (2007)
Sustainable development	Pop. declaring access to safe drinking water	98	98	75	-
Improve Governance	Reported frequency of bribery for health service	-	-	29.1	7.4

Source: The World Bank Report, Country Partnership Strategy for Albania, June 2010

Its position on Human Development Index²⁴ performed higher year by year from its 74th place in 2005, still in line among the Balkan region, but far away from the European Union countries. Albania performed well on achieving the MDGs, by distinguishing enhancements of social indicators (like education level). Yet, as the table indicates, the country still has to face considerable challenges in order to meet with regional principles.

The World Bank dynamic agenda of almost twenty years included chief areas like the implementation of the current portfolio and progress from partnership participations.²⁵ Challenges included a healthier balance of risks and growth returns through the portfolio, development of disbursement rates (still particularly poorer compared to the Bank averages), and abridge the large portfolio in order to make it more convenient.

²⁴ Index used to statistically rank the nations based on their human development level

²⁵ The World Bank Report, Country Partnership Strategy for Albania, June 2010

Table.3.6. Proposed IBRD donation program

2011	USD Mil.
Social Services DPL	25
Municipal Water Supply	40
<u>2011 Total</u>	<u>65</u>
2012	USD Mil.
Growth DPL	25
Water Resources and Irrigation	40
Social Assistance Investment	25
<u>2012 Total</u>	<u>90</u>
2013	USD Mil.
Growth DPL	25
Road Maintenance & Safety	30
Environmental Services	10+
<u>2013 Total</u>	<u>65</u>
2014	USD Mil.
Growth DPL	25
Health	10+
Education	10+
Public Sector Reform	10+
<u>2014 Total</u>	<u>55</u>
<u>TOTAL</u>	<u>275</u>

Source: The World Bank Report, Country Partnership Strategy for Albania, June 2010

Note: the + sign indicates that amount of investment during 2013-14 will be amended during the CPS Progress Report.

Undertakings for the present portfolio comprised USD 180 million in co-financing loans and credits, USD 263 million in IBRD/IDA loans and credits, and USD 35 million of recipient-executed Trust Funds, amounting to a consolidated portfolio (under Bank supervision) of around USD 480 million of investments under implementation.²⁶ Statistics showed that 40 percent of the portfolio is paid out when the disbursement ratio was 21 percent for 2009 and 15.3 percent for 2010.

Being one of the largest donors in terms of payouts it donates around USD 60 million per year, the new project of IBRD aids to Albania foresee around USD 275 million for four years in various sectors. It includes 15 continuing investment projects, 8 new investment projects, and a sequence of yearly improvement policy loans.

²⁶ The World Bank Report, Country Partnership Strategy for Albania, June 2010, Portfolio Performance, pg.15

The World Bank main strategic objective for Albania remains the acceleration of the economic growth through stimulating the competitiveness. To attract foreign investments Albania has to improve the private enterprise. Key obstacles like corruption and inappropriate property administration would eventually undermine the investments. The World Bank interferes through training on regulatory techniques and reforms in land management and business facilities. (See the detailed table Appendix A.1.).

Both energetic and infrastructure sectors remain a major priority for Albania. Boosting their efficiency and improving the actual conditions will be undertaken by the sustainable investment programs. Loans, local road projects and energy efficiency programs could be fulfilled as they prove to stimulate the economic growth.

Improving the life quality standards embraces sustainable investments in public health primary. The main obstacles like access and ineffective facility distribution stand as a challenge. The World Bank intends to focus at the health system modernization through legal ways of healthcare unification and implementing a rationalization plan. The strategic objective is increasing the public efficiency.

Chapter 4

The contradictory aspect of the World Bank

4.1. Introduction

Various factors contribute to the distrust of the World Bank. At Danaher, K. (1994) the World Bank is criticized on meddling loan conditions, which resulted risky to the local political sovereignty of the countries. J. E. Stiglitz, (2002) emphasizes the conditionality of these criteria as powerful enough to turn the loan into a policy instrument.²⁷

The World Bank has often been blamed to disregard the social impact of its strategies, provoking suffocation of the poor or even corporate mistreatment.

According to statistics of the past 20 years, even though the WB policies aim to help developing nations, they become a significant source of misbalanced debt. By borrowing the loan and not affording to pay interests, the amount of the accumulated debt becomes extremely large that they face dependency from the institution. At times of crisis and oil shocks of 1970's and 1980's, economists suggested the local governments to loan from the Bank, so that they could increase their economies, improve infrastructure and replace imports with goods produced within the country. Contrary, as the low and middle income countries did not encounter the ability to repay the borrowed debt due to powerless economical administration, corruption and deficits, the Bank started to absolve some amount of the debt. Till 1990, a number of industrial countries initiated the termination of the debt payments and afterwards the WB formed the famous Debt Relief initiative.

Danaher, K. (1994) argued the three main factors which could shape the World Bank criticisms, as political and economical dependence on aid, lack of transparency and infrastructural impact.

Trade liberalization, financial deregulation of labor markets and privatization of essential services were the main reasons for conflicts in the local level of businesses and economic activity.

²⁷ Stiglitz, J.E., (2002), *"Globalization and Its Discontents"*, W.W. Norton & Co., May 2002. 282pp.

The World Bank was criticized by Wolfensohn in 1995 that its initiatives affected in a further poverty broadening globally. The World Bank undertook the CDF in promoting these adjustment programs by supporting the local governments in facing the foreign corporate interests. The PRSP required from the poor countries to become a part of the debt relief scheme while searching for a multilateral debt reduction.²⁸

The World Bank experience in choosing to protect the interest of the powerful members can be attached to the new image under a same old reality. The civil society has an obligation to focus at the economic and juridical justice of the governments.

Peet, R. (2003) on his closer view to the Bank operations towards poverty, concluded that ‘If the Bank aspires to end poverty; then the poor should not be sentimentalized, but included in the process of planning their own development. This means democratizing the Bank and separating from the Fund’²⁹. Whereas on its critical opinions Stiglitz blamed the governmental regulation strategies as too “deep down into society”³⁰ Stiglitz argued that ownership is being promoted by the donors in both theoretical and empirical ways because the investing strategies should result accomplished. On the other hand, if the local countries develop the persuasion policies, the ownership degree would be greater.

4.2. Stiglitz criticisms

At Yusuf, Sh., (2008), the World Bank was heavily criticized by Stiglitz, straightening dozens of arguments against the functioning of its policies. Stiglitz argued that a relevant approach of the Bank was the role of the outside advisers on sharing practice and experiences. The democratic improvements found essential for every nation to take their own decisions, whereas the Bank function was to help them throughout this process. According to Stiglitz, the WDR should have provided international democratic discussions to help the developing countries in decision making process. As the Washington Consensus doctrines brought an imperfect approach for several countries, Stiglitz’s work on information asymmetry and imperfect markets resulted in a

²⁸ Doug Hellinger, “*IMF Ventures into the Poverty-Alleviation Business*”, NACLA Report on the Americas, November/December 1999.

²⁹ Richard Peet (2003), *Unholy Trinity: “The IMF, World Bank and WTO”*, pp. 200, 222–3.

³⁰ Stiglitz, J.E., (1998), “*Towards a New Paradigm for Development Strategies, Policies and Processes*”, Prebisch Lecture, UNCTAD, Geneva, 19 October 1998, pp. 3-4, 7, 18

practical gap within various policy makers. The World Bank was a global civil servant to the developing countries welfare. Unavoidably, its position was at times oppositely from the U.S Treasury.

The comprehensive gap created among developing countries and developed countries was due to the gap in knowledge. On one side, the detached gap situation in developed countries was blocked by means of investments in education and technology. On the other hand, for developing countries the Bank called for in mounting needs for reform and “objective analysis of property rights”.³¹ Stiglitz’s report strictly provoked a political controversy as well evoking corruption.

He helped to strongly construct the government role towards well-built involvement, but yet the markets failed to become effective. By believing that the government had a huge impact on society and consequently corruption level, Stiglitz found deep traces of corruption in developing countries.³² In such nations, corruption was blocking the public sector slowing down its efficiency. The World Bank’s charter prohibited the Bank to get committed in political issues, whereas the Board observed corruption as a non-economic issue but rather political one. Further studies demonstrated that corruption influenced the economic escalation and reforms, where such effects extended. Corporate Governance of the Bank started to create limitations among the financed countries.

An additional political criticism relates to the poverty issue. While the poor were suffering the lack of income, a following debate sparked between the director and the U.S. treasury, arousing a growth controversy. Their perspective relied in an expanded growth of each country that could potentially decrease the level of poverty, nonetheless the evidence showed the contrary. If growth was imposed by rising inequality, poverty could actually boost, particularly valid in capital market liberalization policy. (Ocampo, J.A., and Stiglitz, J.E., (2008)). At this point, the poverty reduction strategies were reformed with significant complementarities which have been neglect in the precedent periods. Consequently, new problematiques followed when the Washington Consensus strategy suggested the privatization of social security, which unfortunately ended in a market crash in 2008 at accumulated market inflation risks.

³¹ Stiglitz, J.E. (2006): chapter 4; and Stiglitz, J.E. 2004b, 2007.

³² Stiglitz (1986)

Even though the growth and stability policies were equivocal (Easterly, W., Islam, R., and Stiglitz, J.E., (2001)), they created a supplementary poverty at a general level. Stiglitz criticism on the WB at this point was that the destabilized democratic practices happened to be contributory for poverty.

At Stiglitz, J.E., (2003), it was argued that the institutional flaws are related to stock options, which motivated the bad accounting. Information asymmetries were intensified by securitization, which declined the quality value. Lack of regulation implied a real critical perception, whether the institutions generated inequalities, from the attempt to preserve them. At the 2000/2001 WDR, it was showed that in order to improve equality and lessen poverty, growth policies were necessary.

4.3. Political and Economical Factors

The structural adjustment loans affect the developing countries in undertaking cut public spending. Therefore, the World Bank financing instruments influence on the political unrest of the receiving countries. An estimation of average USD 180 million resulted as unsuccessful loans from year 1980 to 2003 at a worldwide scale. Main causes were the political factors like instability, governmental conflicts which decrease the economic growth as analyzed at Hsieh, A., (2009), the political instability as well as the ownership lack and insufficient institutional quality affect in the World Bank's poor economic performance. Income inequalities on the other hand contribute to the political turmoil. A political outcome of the WB on the receiving country is that the foreign aid undermines the appropriate budgeting.

Criticism of the World Bank was displayed in Moss T. and Pettersson G., (2005), like a very controversial aspect of improving the life standards on one hand and distorted effects on policy and institutional development obtained on the other.

The mission of the World Bank is that of considering the aid as a subsidy for achieving long-term effects in governmental development, economic growth and human capital. The negative aspect stands in discouraging the local revenue collection and created a dependent decision making at the stale level. The consequences are the delay of the institutional development.

The World Bank allocation of large volumes of aid is reflected in political and economic outcomes.

The ODA inflow negatively influences in real exchange rate and in export competitiveness decrease. The Dutch disease is the definition on these situations where the Central Banks interfere to maintain the exchange rate; despite this the competitiveness is undermined.

As identified at Cammack, P., (2004), poverty does not increase corruption, because the development itself produces prominent motivation for corruption. Efforts to achieve corruption-free and responsible governance coordination could help to understand the structure of the interventions to be taken. The Bank still nowadays uses programs against corruption like liberalization, decentralization and democratization (especially used in developing countries).

A data assessment on corruption in poor countries, not only offered a diverse recommendation of anti corruption strategies, but also implied that none of these Bank's policies helps to realize the political resolution, likely as in developed countries. Undeniably, new policies can potentially create new transition phases.

In 1996, Wolfensohn, the WB President mentioned the “cancer of corruption” as unfavorable for the economic development. This represented a new development in WB governance as referenced at Winters, M., (2010). The criticism of the WB development projects lies in the local implementation quality. Different qualities would be associated with different results. Well governed Balkan countries assimilate the aid deliveries in a more efficient way rather than poorly governed ones. The programmatic aid is the right pattern for the well governed countries since this support can flow appropriately at the oriented destinations. To avoid the corruption in poor-governed states the non-governmental organizations may receive the short term aid.³³

According to Easterly, W., (2006), the adjustment lending activity increases fragmentation between Balkan countries on the technical assistance basis and represents no differences in regional balance policy.

³³ See Cordella and Dell'Araccia, (2003)

4.4. World Bank Controversy. Albania and Balkans

According to Berney, L., (1989), some of the countries received financing from WB for political reasons rather than poverty reduction. Resource allocation presents a deep concern in the Balkans where overcoming the poverty is in interest of reaching the political stability.

Bauer criticized the WB as of Shleifer, A. (2009) where foreign aid as a hurt for the economic development defining “a transfer of resources from the taxpayer of a donor country to the government. According to him, the WB failure of the foreign aid stands at meeting the objective of the accelerating the economic growth.

Several risks and criticisms of the WB were acknowledged at the Country Partnership Strategy program for Albania. Initially, the macroeconomic aspect was weakening due to the fragile outdoor environment and fiscal policy situation. At this point, the Bank’s policy of budget support loans gathered immediate finance needs, since funding was less occasional and policy reactions condensed. Considering all the evidences as serious threat for the strategies, the WB strengthened its discussion on macroeconomic policy and synchronized with the European Commission to monitor the projected policy reaction. Nonetheless, the reforms were accompanied by vagueness, and yet needed a short time observation of program responses.

Secondly, and considerably, the determined political pressures enclosed the risk of CPS implementation. The political atmosphere is contrasted even though it went through severe trials to consolidate a democratic environment. The risk of irregularities among the government and parties could persevere. In turn, they will imply clear pessimistic insinuation for CPS implementation because the WB policies could be affected whenever the government will shift its attention to political issues instead of growth. Furthermore, strategy decision making will clearly go to a standstill.

Finally, Albania has to accelerate the donor financed implementations as it is facing continual implementation confronts. Challenges like intergovernmental management hold back portfolio accomplishment and strengthen as the Government progresses towards EU agenda. Given this, the CPS reformed the portfolio to lessen the difficulties of the WB’s sustain to Albania.

Additionally, the Government created new instruments to concentrate in externally-assisted actions in order to speed up completion of investment plans across different sectors.

In the Balkan region the World Bank investments besides fulfilling their mission may influence in creating an addiction from foreign aid inflows. Expanding their governmental capacities would be greatly affected by the imposed financing at orientated destinations. Therefore the World Bank approaches contrast the independency of Balkan countries for the local decision-making on where to allocate the funds.

Another critical aspect of the role of the Bank in the region comes from the large volume aids which cause economic inequalities. As represented above, there are special Balkan countries like Serbia for example which are being financed at a higher share level. From a social perspective this could create social contrast between the countries in region. The life standards, health or educational qualities would make one country “superior” to the other. Economic inequalities have to be resolved through political policies and a great local governmental role at smoothing them.

At more historic bases the WB financing in Balkans creates certain gaps since the aids are distributed according to the historic factors. These financing policies are based more at political background rather than poverty reduction therefore may appear as controversy. This is linked with the incoherence of the policies with its own missions. The corporate governance affects deeply in the project undertaking and its monitoring.

On the other hand, a great share of the investments in the Balkan region was realized at government institutional improvements and infrastructure. The aids embrace the infectivity part because of bad management by the receiving country, corruption and bribes. The implementation phase required a thorough technical supervising so as the project missions could be completed successfully.

Chapter 5

Empirical Analysis

Initially, the purpose of this study was to statistically demonstrate the controversial role of the World Bank aid among the Balkan territory since 1990s. However, due to the lack of data in most of the years for a few countries and the main political-historical issues that followed restricted this study into a narrower approach. The study dares to bring a distinctive analysis of the other-side effect of these investments. Therefore, the empirical investigation of foreign aid on growth is based on a panel data analysis.

5.1. Data and Methodology

The empirical analysis used in this work attempts to enclose a possible controversial evidence of the World Bank aid impact in the Balkan region. In order to obtain consistent results, we will be mainly focused on five major countries of the region which will present an economic contrast among the Balkans and broader. The present study will focus on a sample of 55 annual observations for five countries between 2000 and 2010 period. The reason why this framework was chosen is primarily due to data availability matter, adding the aim to maintain the data set balanced in time and cross country level. Among other assorted analyses applied in this region, in a different way, our approach intends to bring a closer outline of the litigious role of aid. Consequently, the cross section sample covers developing economies for the region, still in process of being recognized as new EU members. The Balkan region stands as the most undeveloped region in Europe, therefore it is highly important to analyze if the World Bank is successful in front of the regional challenges. Countries as Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia represent minor developed economies for the Balkans and have been a major focus of the Bank to implement its aid. The empirical study includes a

total range of four variables, one being dependant and the others comprise the set of explanatory variables. Variables integrated into the study are roughly described and could be found as below (see Appendix.B.1). As of relevant importance to our study, variables have been taken from various sources.

Methodology

Empirical literature is rich with studies related to foreign aid on economy behavior. Studies overtake to examine its impact since late 1990's. Even though the economies of the studied countries are closely related to each other their economic indicators and characteristics vary. This happens due to various reasons such as the variables chosen for the econometric model. Hence, our study cannot simply imply OLS on a pooled data because it will give us meaningless parameters. Relationship of aid and growth is subject to several empirical studies, examined throughout various models. At Burnside and Dollar (2000) the authors used a panel data estimation to observe the foreign aid and growth relationships. The cross-country evidence of the developing countries suggested positive impact of aid on growth. Furthermore, the aid allocation to developing countries privileged those with healthier governance quality. Their conclusion on aid-growth relationship varying at the importance of the incentive regime was sustained at Collier and Dollar (2002). The authors used both cross sectional and times series data to study the aid dependence on quality of policies. Hansen Dalgaard and Tarp (2003) in their cross-country study examined aid as an endogenous regressor and found that the level to which aid increases growth varies on institutional circumstances. Rajan and Subramanian (2007) alters several approaches by using both cross-section aid-growth data and pooled time-series.

As of Wooldridge J.M., (2001) panel datasets provide numerous observations and large number of data points rather than choosing time-series or cross section data only. Likely, it decreases the colinearity between explanatory variables and provides deeper understanding among complex matters. In addition, OLS method is not valid under the presence of non-stationary, thus we started to estimate pooled OLS, both fixed and random effects models to see which would provide efficient results. Under Hausman test we concluded that random effect model is consistent and that OLS specification cannot be used.

5.2 Econometric Model

Evidence on aid-growth relationship is of significant importance for two reasons. Initially, helps to comprehend how aid affects a certain economy and secondly, evidences could influence aid policies of each country. Econometric model of this study is an inspiration from Burnside and Dollar (2000). We used the baseline threshold of the model and additionally supplemented with two variables to obtain expected framework findings. The overall regression of panel data is denoted as: ³⁴

$$y_{it} = \alpha + \beta^T X_{it} + u_{it}$$

Where,

$i=1, \dots, N$ and $t=1, \dots, T$

In our case the dependant variable y_{it} relates to GDP per capita in PPP whereas the other independent variables form the set of explanatory ones. Despite its general benchmark, the model we decided to apply could be expressed as follows:

$$GDP = f(FA, CoC, POPG)$$

Where,

GDP – per capita Gross Domestic Product in PPP

FA – foreign aid indicating the World Bank aid, ODA aid excluding debt

CoC – Control of Corruption

POPG – Population Growth

Ideally the importance of this empirical study requires the attempt to use differences of log GDP and log of initial GDP as independent variables, which even though statistically tested in our case, did not manage to bring efficient empirical evidence rather than the current regression.

³⁴ See Baltagi (2008), Hsiao, Cheng, (2003) and other various studies

We enclosed the designed variables to this regression in order to prove the empirical expectations of aid-growth relationship into these developing countries, also supported by statistical data (as on previous chapters). Moreover, the World Bank aid affects governance and population growth of each country. The latter estimated variables are expected to relate positively with aid, whereas the impact of aid on growth itself in negative terms. Therefore, the result would offer a critical role of the given aid.

As of Svensson (1999) the role of aid on both governance and growth is examined. Aid can positively impact growth in more developed and institutionalized nations where the governmental power is stronger. On the other hand, as empirically resulted, the author finds proof of negative relationship among variables, meaning that the donor influence is weak and that aid would serve nothing more but satisfying the administration breakdown.

A number of studies (Boone, 1996) argue that aid was unsuccessful, by blaming role of the recipient governments and not having suitable monetary policies (Burnside and Dollar, 1997). Likewise, their findings suggest that aid can be effective only if it improves income (savings rate amplifies) and as a result, an unsustainable government policy can avoid the latter. Thus, aid positively impacts growth among developing countries only if suitable policies are primed and good monetary trade is taken. Additionally, Boone (1994) related the effects of the governmental policies as adverse if correlation between aid and investments would not be taken in consideration. As aid is restricted to investment and human capital, adverse outcome should come as no surprise Hansen and Tarp (1999).

5.3 Empirical Results

In this section we will present the empirical results given by the estimated models of this study. As of Baltagi (2008) unit root test is a necessary tool against potential spurious regression evidence. To avoid the spurious regression problem, we firstly try to test the model for non-stationary. In order to have a consistent regression, variables need to be stationary, although the majority of the empirical studies base their approach upon the assumption of stationary. The advantages of testing for unit root avoid spurious regression.

Thus, we use the (LLC) and Augmented Dickey-Fuller (ADF) tests. Two of our main variables results are presented as below (Table.5.1.). Both tests have as null hypothesis a unit root specification. As pointed out from the results, t-statistics indicate significance at a 5 percent standard level. As a result, series is stationary. Still, as the hypothesis of no unit root is confirmed for both tests, this step resides more in terms of a theoretical assumption.

Table.5.1. Unit Root Tests

Variables	LLC			ADF	
	With constant	Without constant	Const & Trend	With constant	Const & Trend
GDP	-0.18071 (0.1748)	0.04963 (0.9680)	-0.65625 (0.0164)	(0.9997)	(0.8892)
POPG	-0.3375 (0.0000)	-0.28768 (0.0000)	-0.38013 (0.0000)	(0.0000)	(0.0032)

Source: Author

Using the pooled OLS model results, we estimated several tests as of Hausman, White's Test for heteroscedasticity, Breusch Pagan test where all are presented as per Table.5.2.

Table.5.2. Pooled OLS diagnosis

Tests	Hausman	White	Breusch-Pagan	Joint Significance
Results	H = 3.41362 p-value=p(chi-square(3)>3.41362)= 0.332139	LM = 9.49745 p-value = P(Chi square (9) > 9.49745) = 0.392677	LM =9.2123 p-value=p(chi-square(1)>9.2123)= 0.00240394	F(4, 37) =6.85615 p-value 0.000310778

Source: Author

Hausman test suggests that fixed effect model is more consistent instead of random effect model. Breusch-Pagan test is showing that pooled OLS model is adequate; as we reject the null hypothesis in favor of the random effects alternatively. Joint significance F-test also favors the use of fixed effect model against the random one likely of Hausman test. Alternatively, Breusch-Pagan test is also a measure of heteroscedasticity or the Lagrange Multiplier test for heteroskedasticity where the null hypothesis is that the residuals are homoscedastic. As a result, the OLS parameters are consistent, yet not efficient. Standard errors can generate false statistical evidence as they are magnified.

The correlation matrix (Appendix.B.3.) demonstrates the highest positive correlation among the GDP and Control of Corruption (0.6059), whereas the highest negative one holds for GDP and Population Growth (-0.4046). Although there is no perfect positive or negative linear correlation among the coefficients, we decided to additionally test for the variance inflation factor (VIF). VIF as a tool for multicollinearity, suggested that all variables reject the occurrence of collinearity. The greater the value is³⁵, the higher the threat of collinearity in the model (See Appendix B.4.).

An additional problem that could rather menace the model is endogeneity. In order to leave the doubts behind, we estimated the model using the 2SLS application. Through this method instrumental variables tolerate consistent evaluation if the independent variables are correlated with the error term. Results showed that if foreign aid is instrumented, output of the data would provide significant specifications meaning that the endogeneity is riskless. Yet, under this technique, we conclude that random effect model is the best to be taken into consideration judging from the empirical results (Appendix.B.6, Appendix.B.7. and Appendix.B.8.). To compare the above mentioned methods we decided to construct a table of parameters for each of the model in one table.

Table.5.3. Comparative estimation among models

	Pooled OLS ³⁶			Panel			
	Coef.	p-value	Signif.	FE		RE	
				Coef.	p-value	Coef.	p-value
const	11294.2	5.70e-023	***	10859.92	0.0000 ***	11113.4	0.0000 ***
fa	-22.1423	0.0007	***	-16.534	0.0128 **	-17.33974	0.0067 ***
coc	4140.94	0.0023	***	-4003.111	0.0048 ***	4096.116	0.0027 ***
popg	-1797.03	0.0038	***	-952.3741	0.0846 *	-1054.835	0.0000 ***

Source: Author

Note: *** Statistically significant at 10 percent level

** Statistically significant at 5 percent level

* Statistically significant at 1 percent level

³⁵ Values greater than 10.0 indicate collinearity

³⁶ Pooled OLS diagnosis could be found at Appendix.B.5.

As we do not find 2SLS method necessary, we further need to decide which model is better for our regression. Deciding between pooled OLS or Fixed effect and Random effect, we test for F-test, Breusch-Pagan test and Hausman test as below:

Table.5.4. Panel diagnosis

Tests	F-test (Pooled OLS vs. FE)	Hausman (FE vs. Re)	Breusch-Pagan (Pooled OLS vs.RE)
Results	F(4, 37) = 6.85615 p-value = P(F(4, 37) > 6.85615) = 0.000310778	p-value = 0.332139	p-value = 0.00240394

Source: Author

In order to choose between pooled OLS model and Fixed Effect model we estimated F-test. According to the test statistic we conclude that the fixed effect model is better than the pooled OLS model. Breusch-Pagan test helps us to decide of pooled OLS or random effect presence. Thus, we reject the null hypothesis of “variance of the unit-specific error equal to zero” and conclude that random effect is present. The importance of Hausman test is that it helps to clarify which from fixed effect or random effect is more efficient. Finally, we cannot reject null hypothesis of “OLS estimators are consistent” thus, random effect is the best model to be chosen. Furthermore, according to Hausman test, random effect is consistent.

Empirical findings

Estimated results of the model suggest that foreign aid has negative and significant effect on growth. As our main controversial finding, this negative relationship proves that these Balkan countries did not manage to get sustainable economic growth from the World Bank aid for the 2000-2010 period. Adverse effects of this kind are also encountered in several studies. Bauer (1991) argued that ‘foreign aid has also enabled many governments to pursue policies that plainly retard economic growth and exacerbate poverty’³⁷. Brautigam and Knack (2004), Subramanian and Rajan (2005), Ekanayake and Chatrna (2010) also found negative evidence in a panel framework. The perspective of this negative relation is based on the argument that if the aid succeeds in promoting the sustainable growth, then some time the growth would have

³⁷ Peter T. Bauer, *The Development Frontier: Essays in Applied Economics* (Hemel Hempstead: Harvester/Wheatsheaf, 1991), 46, cited in Robert Lensink and Howard White, “Are There Negative Returns to Aid?”, *The Journal of Development Studies* 37, no. 6 (August 2001): 42–65

become redundant. By achieving economic growth, the country may have higher chances to produce more. Therefore, while reaching further growth by itself the influence of aid becomes negative. As of Djankov, Montalvo and Reynal-Querol, (2008), in case of high aid for a country, it would be difficult to provide solution to the collective issues between the receipt and donor; therefore it impacts a moral hazard. Additionally, a high aid shall deteriorate the local democratic accountability. The tax revenues from citizens and businesses would be lower. Moreover, high inflows would create a soft budget constraint. Government officials use large aid amount at activities trying to avoid the power loss.

Aid flows can be proficient only when used accurately. Efficiency, in developing countries, is first and foremost dependent on government control and use. Embracing corruptive approaches, the governments of the receiving countries have misused the aid for personal use rather than for national welfare. In such circumstances, the foreign aid impact on growth is negative or even steady, (See Furjelová, 2010). On the other hand, as of Lensink and White (1999), a key argument on why the large aid amount could negatively affect the receiving country could be illustrated by Laffer curve: the country's profits from initial aid inflows increase but after a certain point the benefit level decreases, so that it would have been better to receive less aid. Lastly, the local economy should have identified its capacity of absorption of the aid inflow. Potential negative high aid volume effects as supported by Moss, Pettersson and Van de Walle (2006) influences in public institutions and in incentives cutting for revenue collection.

Control of corruption as a governance indicator, is positively related to growth. Evidence of positive relationship among governance and growth is also consistent at Kaufmann and Kraay, (2003) and other empirical analyses. Positive relations among growth and governance can also be found at Hall and Jones (1999), Easterly and Levine (2003), and Rodrik (2004). Dollar and Kraay (2002), argue that “the voice and accountability indicator is positively correlated with income growth amongst the poorest quintile of the population”³⁸. Whereas, according to Glaeser et al. (2004), the governance indicators display the political environment characteristics, raising the per capita income.

³⁸ Dollar, D. and A. Kraay. 2002. “*Growth is Good for the Poor,*” Journal of Economic Growth, Vol. 7: 195-225.

Government actions are, by themselves, stimulating growth. Governmental policies should support the foreign aid so that it could be very well orientated in the appropriate destinations of the economy. The governmental policies should be in concordance with the World Bank aid policies, in order to get the successful outcome. Good governance creates a secure base of the economic growth. It would support with economic reforms and political institutional activity the inflow of the aid.

We found negative relationship between population growth and economic growth. Similarly TO previous research, greater population growth rates can conduct to a drop in economic growth (See Barro and Becker, 1989; Galor and Weil, 2000).

If the economy of a country is based on capital intensive products and services then high population growth will increase labor force but will not increase productivity. Also, in presence of income inequality and poverty, population growth will increase mouths to feed but will not improve growth.

Chapter 6

Conclusions

This study investigated the controversy role of the World Bank in the Balkan region. The study provided all the financial impact of the projects and its effects on these economies. Focusing mainly at improving the economic growth, the role of the World Bank is clear.

The data used for the estimation period is from 2000-2010 based on the World Bank publications. The GDP values increase as the volume of the foreign aid increases, reducing poverty and tending for the macroeconomic stability. The determinants of foreign aid inflows resulted to be historic and political ones. The mission for the Balkan is improving the institutional policies, market liberalization and life quality standards.

The economic literature and Stiglitz publications display contradictory views on the real outcomes of foreign aid. Stiglitz's report strictly provoked a political controversy as well evoking corruption. He helped to strongly construct the government role towards well-built involvement, but yet the markets failed to become effective. By believing that the government had a huge impact on society and consequently corruption level, Stiglitz found deep traces of corruption in developing countries. In such nations, corruption was blocking the public sector slowing down its efficiency.

The mission of the World Bank is that of considering the aid as a subsidy for achieving long-term effects in governmental development, economic growth and human capital. The negative aspect stands in discouraging the local revenue collection and created a dependent decision making at the state level. The consequences are the delay of the institutional development.

The last chapter provides the methodology of estimating parameters. Based on the above remarks the World Bank's role in the Balkan region resulted controversial. Leaving behind difficult

transition phase and past wars, countries like Albania, Bosnia and Herzegovina, and Serbia intend to fully implement the World Bank's strategic goals both in political and economic sphere.

The improvements of project management system, governmental supervision would be reached the balanced policy in investing at the right oriented destinations. The economic inequalities have to be avoided so as to minimize the contrasts in the region and coherently boosting these countries economy.

APPENDIX A

Appendix.A.1. Country Partnership Strategy Matrix for Albania

Strategic Objective 1: Accelerating the recovery in Albania's economic growth through improved competitiveness

(ii) Improving business regulations and reducing compliance costs for the private sector

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (for Governance)	WB INSTRUMENT
A favorable business climate will be created for the dynamic development of private enterprise and the attraction of foreign investment. NSDI, p.17	The cost of doing business in Albania remains high due to administrative corruption and a high "time tax", Albania's investment climate is undermined by inadequate property administration and weaknesses in urban land administration.	<p>Reduce the cost of business as evidenced by:</p> <ol style="list-style-type: none"> 1. Two full Regulatory Impact Assessments conducted per year by 2013. 2. Decrease in the number of inspections per business per year (status: 32 in 2009; target: 12 in 2011). 3. Decrease in time to receive a building permit (status: 180 days in 2007; target: 100 days at end-2011) 	<p>Increase in government officials trained in regulatory review techniques (target: 375 in 2011). Regulatory framework for inspections revised and adopted increase in number of titles issued in urban areas (status: 130,000 in 2009; target: 320,000 at end-2011). Complete computerization of Immovable Property Registration Office.</p>	<p>Business Environment Reform, Land Administration and Management Project Governance Partnership Facility. Trade Logistics Program IFC, Tax Simplification Project IFC, Sub-national Competitiveness Program SEE. Doing Business initiative</p>

(iii) Infrastructure services in roads, energy, and irrigation

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (for Governance)	WB INSTRUMENT
<p>The energy system will be developed based on market principles, the domestic market will be open and liberalized, and will be integrated with the regional and European energy market. The capacity to produce energy will increase with the aim to cover the aggregate demand for energy. NSDI, p.17</p>	<p>Albania's energy sector continues to face technical and financial challenges. Recent reforms including unbundling of the system, privatization of the retail supply, investments in strengthening generation and transmission capacities need to be brought to fruition before the impacts can be felt.</p> <p>Albania's competitiveness is impaired by inadequate road infrastructure. Over 75% of the local network is in poor condition.</p> <p>There has been a significant increase in road investments requiring commensurate increases in provisions and the efficiency of road maintenance. Efforts to improve road management institutions need to be consolidated.</p>	<p>Improved domestic energy supply, transmissions system operation, and distribution system cost recovery, as by: 1. Increased and diversified capacity to generate electricity of 700 GWh per annum 2. Reduction in residential energy consumption by 20,000 kWh from micro-loans for energy efficiency improvements. 3. Full implementation of cost recovery tariffs by 2014.</p> <p>Improved road conditions and sustainability of road investments as: 1. 26 communities with improved road access to services and markets (target: 26 in 2012) 2. Increase in share of regional and local roads in better conditions (project target: 108 in 2012; program target 1,700 in 2014).</p>	<p>Rehabilitation of six substations completed, Transmission System Operator and business plan including new tariffs approved. Timely tariff adjustments approved for Distribution System Operator and Retail Public Supplier in conformity with the agreed Regulatory Statement, Cooperation Agreements signed with five banks to implement the Residential Energy Efficiency program.</p> <p>108 km in local and secondary roads reconstructed/rehabilitated (by Bank project); 1,700 km of regional and local roads reconstructed/rehabilitated (by the entire multi-donor funded program); Creation of an asset management systems for secondary local roads and Albania National Road Authority.</p>	<p>Power Sector Gen & Restructuring Project, ECSEE Energy APL2 Transmission Project, and IFC Renewable Energy Program for Small Hydro Power Plants, IFC Residential Energy Efficiency Micro Loans, IFC direct investments & specialized financial products in clean and renewable energy.</p> <p>Transport Project Secondary & Local Roads Project Road Maintenance & Safety (FY13), IFC's advisory for PPPs in Road Operation and Maintenance.</p>

Strategic Objective 2: Broadening and sustaining Albania's social gains

(ii) Improved access to quality primary health care and more efficient of public spending on health care

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (for Governance)	WB INSTRUMENT
The public health system will offer a basic, good quality and effective service for all through managerial improvements. NSDI, p.18.	Access to quality primary health care services is inadequate in Albania, particularly among the poor. Health care financing and governance is fragmented, and an inefficient distribution of facilities impairs effective delivery of care.	Improved access to quality primary health care, as evidenced by: Increase in the population enrolled in health insurance (status: <10% in 2009; target: 70% in 2014). Improve the efficiency of public spending on health care, as evidenced by: Decrease in the share of public sector spending on hospital care (status: 58%; target: 48%).	Unification of primary and secondary healthcare purchasing under the Health Insurance Institute. Adoption and initiation of implementation of rationalization plan for the health sector. All public hospitals financed under performance-based contracts.	Health System Modernization Project Health Project (FY14) outcomes expected next CPS.

Source: World Bank Report, Country Partnership Strategy for Albania, 2010

APPENDIX B

As of relevant importance to our study, variables have been taken from various sources. Likely, description of data is illustrated as follows:

Appendix.B.1. Variables description and Source

	GDP	FA	CoC	POPG
Description	GDP per capita in Purchasing Power Parity (PPP) i.e. the level of gross domestic product divided by the population of the respective country, converted into current international dollars using PPP rates.	Foreign aid. Indicating the World Bank aid into sample countries. Aid type is ODA excluding debt. Donor is IDA, (International Development Association), as the main donor among the region.	Control of Corruption, a governance indicator detaining awareness of the amount to which public power is exercised for private gain. Includes forms of corruption and snapshots to public governance issues. ³⁹	Population Growth is the change in population over time.
Source	The World Bank, International Comparison Program database. World Development Indicators, 2012	Organization for Economic Co-operation and Development, OECD Statistics.	The Worldwide Governance Indicators (WGI), 2012. Also updated with Kaufmann, Kraay, and Mastruzzi, (2010), World Bank Policy Research.	The World Bank, Catalog Sources, World Development Indicators, 2012

Source: Author

³⁹ The indicator ranges from -2.5 (weaker) to 2.5 (stronger). The higher the indicator, the better governance performance is.

Appendix.B.2. Descriptive statistics of the main variables

Variable	Obs	Mean	Std. Dev.	Min	Max
time	55	2005	3.191424	2000	2010
country	55	3	1.427248	1	5
fa	50	40.8978	43.78944	(-8.22)	208.55
gdp	55	7890.444	2406.618	4254.23	13649.75
coc	46	(-0.4251996)	0.2268476	(-0.9176551)	0.0249428
popg	55	0.1350248	0.4850847	(-0.4861655)	2.529491

Appendix.B.3. Correlation matrix of main variables

	GDP	FA	COC	POPG
GDP	1.0000			
FA	-0.4850	1.0000		
COC	0.6059	-0.3091	1.0000	
POPG	-0.4046	-0.1192	-0.2992	1.0000

Appendix.B.4. Variance Inflation Factors

Variable	VIF
FA	1.169
COC	1.266
POPG	1.162

Appendix.B.5. Pooled OLS diagnosis

	Coefficient	Std. Error	t-ratio	p-value	
const	11294.2	557.489	20.2591	<0.00001	***
fa	-22.1423	6.03288	-3.6703	0.00069	***
coc	4140.94	1271.09	3.2578	0.00226	***
popg	-1797.03	586.185	-3.0656	0.00383	***
Mean dependent var	8276.264	S.D. dependent var		2465.551	
Sum squared resid	1.16e+08	S.E. of regression		1684.884	
R-squared	0.564846	Adjusted R-squared		0.533005	
F(3, 41)	17.73983	P-value(F)		1.56e-07	
Log-likelihood	-396.0830	Akaike criterion		800.1661	
Schwarz criterion	807.3927	Hannan-Quinn		802.8601	
rho	0.536531	Durbin-Watson		0.766810	

Appendix.B.6. G2SLS random-effects, RE with instruments

gdp	Coef	Std. Err	z	P> z	[95% Conf. Interval]	
Fa	-79.71392	48.26247	-1.65	0.099	-174.3066	14.87878
Coc	-256.8766	5926.32	-0.04	0.965	-11872.25	11358.5
Popg	-3965.632	3964.629	-1.00	0.317	-11736.16	3804.898
_cons	12182.53	1874.873	6.50	0.000	8507.848	15857.21
sigma_u 2031.8842					R-sq: within = 0.3346	
sigma_e 1809.4825					between = 0.6328	
rho .55770307 (fraction of variance due to u_i)					overall = 0.3691	
Instrumented: fa						
Instruments: coc popg L.fa L.coc L.popg						

Appendix.B.7. Fixed Effects (Within Regression)

gdp	Coef	Std. Err	z	P> z 	[95% Conf. Interval]	
fa	-16.534	6.322448	-2.62	0.013	-29.34449	-3.723501
coc	-4003.111	1333.118	3.00	0.005	1301.958	6704.264
popg	-952.3741	537.4256	-1.77	0.085	-2041.302	136.5537
_cons	10859.92	534.7229	20.31	0.000	9776.467	11943.37
sigma_u 1384.0545					R-sq: within = 0.5021	
sigma_e 1344.1123					between = 0.7580	
rho 0.51463754 (fraction of variance due to u_i)					overall = 0.5522	
F test that all u_i=0: F(4, 37) = 6.86 Prob > F = 0.0003						

Appendix.B.8. Random Effects GLS Regression

gdp	Coef	Std. Err	z	P> z	[95% Conf. Interval]	
Fa	-17.33974	6.069051	-2.86	0.004	-29.23486	-5.444615
Coc	4096.116	1282.287	3.19	0.001	1582.88	6609.352
Popg	-1054.835	527.39	-2.00	0.045	-2088.501	-21.16979
_cons	11113.38	772.5362	14.39	0.000	9599.238	12627.52
sigma_u 1300.1884					R-sq: within = 0.5019	
sigma_e 1344.1123					between = 0.7672	
rho 0.48339381 (fraction of variance due to u_i)					overall = 0.5550	
F test that all u_i=0: F(4, 37) = 6.86 Prob > F = 0.0003						

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